Determinants of Entry Mode and Expansion Decisions by Scandinavian MNEs in China

Master's Thesis

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Abstract

In the past decades, China has attracted many multinational enterprises (MNEs) through its continuous economic growth and greater openness towards foreign investment. At the same time, companies that are doing business in China are confronted with various challenges in the external environment. In order to operate successfully in China, firms have to make crucial decisions in regards to their entry mode and expansion strategies. Despite the vast amount of research on entry mode decisions in international business literature, little attention has been drawn to later stages of internationalisation as well as Scandinavian firms in the Chinese market. Therefore, this thesis investigates determinants of entry mode and expansion decisions by Scandinavian MNEs in China. By focusing on five main theories, namely Transaction Cost Theory, the Resource-Based View, the Eclectic Paradigm, Institutional Theory and the Evolutionary Process of Global Market Expansion, we examine internal and external factors which influence these decisions. This is done by applying two complementary research methods. First, a quantitative part concentrates on the entry mode choice between a Joint Venture (JV) and a Wholly Owned Subsidiary (WOS). Thereafter, a qualitative part explores expansion determinants through the application of a multiple case study, including three Scandinavian MNEs. The quantitative analysis shows mostly inconclusive results. However, the qualitative findings reveal that several factors influence expansion decisions in China. We suggest that certain internal and external factors gain influence in later stages of a company's expansion process. This implies that time plays an important role. Overall, our thesis contributes to a deeper understanding of determinants related to challenges and opportunities of MNEs entering and operating in China.

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List of Abbreviations

MNE	Multinational Enterprise
TCT	Transaction Cost Theory
RBV	Resource-Based View
OLI	Ownership, Location, Internalisation Advantages
VRIO	Valuable, Rare, Imitable, Organizationally Embedded Resources/Capabilities
IT	Institutional Theory
NIT	New Institutional Theory
JV	Joint Venture
WOS	Wholly Owned Subsidiary
FDI	Foreign Direct Investment
OECD	Organisation for Economic Co-operation and Development
IPR	Intellectual Property Rights
GDP	Gross Domestic Product

1. Introduction

"*If you can make it in China, chances are good you will make it anywhere.*"
- Peter Kiaer, Sales Director of Grundfos China

The above statement, made by one of our interviewees, emphasises the large potential but also the various challenges faced by foreign firms in the Chinese market. China's economic development in the past decades has led many multinational enterprises to enter and expand in the country. With economic reforms starting in the late 1970s, China has increasingly fostered foreign investments and opened up industries to the participation of foreign companies (Cui, 1988). Especially in the 1990s, foreign companies started investing significantly in China (Kok-Kheng Yeoh & Hoi-Lee Loh, 2008). In December 2001, China joined the World Trade Organisation (WTO, 2017) which created new opportunities for the country in the world economy and also encouraged foreign firms to set up operations there. The country's growing demand for consumer goods and services has created vast opportunities in many industries (Perkowski, 2012). New policies have encouraged many leading multinational corporations to establish positions in China and MNEs have also expanded inside its boundaries (Cui, 1998). Next year marks the 40th anniversary (1978 - 2018) of the "*open-door*" policy in China (Fang et al., 2008) and the Chinese government recently reinforced its position towards an open market. It was during the World Economic Forum 2017 that President Xi Jinping announced that restrictions on foreign investments will be reduced (Reuters, 2017). Even though China's time of double digit economic growth is probably over and expected not to strongly exceed 6.5% in 2017 (Spiegel, 2017), the market still offers tremendous opportunities and remains highly attractive for MNEs (Tse, 2016).

While many firms have successfully entered and expanded in China, the journey has not been so successful for others. This is especially due to the continuous evolvement of various external and internal challenges, which for some firms have ultimately led to a withdrawal from China. In particular, the complex and dynamic market poses problems (Tse, 2016). This shows that entering and doing business in China still comes with a number of challenges and risks. For instance, challenges may relate to external factors

such as institutional and regulatory restrictions or internal factors such as the protection of firm-specific knowledge. Challenges often differ depending on the geographical region and industry in which a firm operates as well as the business strategy of a company (Cui, 1998). Along with parameter changes in China's competitive and regulatory environment, MNEs have changed strategies by going from being foreign investors to strategic insiders. For instance, MNEs have shifted their strategy in treating China as a market for relocating production and transferring competence, to integrating Chinese operations into the companies' value chains as well as building competence on site. Another example is the shift from little geographic adaptation of products to responsive diversification. In short, MNEs' Chinese operations have developed to become a very important part of their overall success (Luo, 2007). Therefore, firms have to make crucial strategic decisions regarding their entry mode and expansion in China. As the outcomes of these decisions are also related to a later success or failure in the market, factors influencing these decisions are of high interest in research and for MNEs. Given the relevance of entry mode choices, the topic has been investigated intensively in international business literature (Shaver, 2013). Several underlying theories have been identified when it comes to explaining external and internal factors which impact entry mode decisions. However, challenges and opportunities related to later stages of expansion appear not to have received as much attention in research. In addition, foreign direct investment (FDI) research has mostly been related to companies from OECD countries such as the United Kingdom, the United States, Japan and Germany, even though smaller countries are also characterised by substantial FDI activity. For instance, many Scandinavian firms have long international backgrounds and some of them have become important players in global markets (Larimo, 2003). The advanced industrial economies of Scandinavia largely depend on external markets and in the past decade, China has been labelled as the largest trading partner of the region (Kok-Kheng Yeoh & Hoi-Lee Loh, 2008). Based on these arguments, the aim of this thesis is to fill a research gap by investigating two sides of the internationalisation process, namely entry mode decisions and expansion strategies by Scandinavian firms in the Chinese market. In particular, this is done with respect to internal, firm-specific, factors and external, country-specific, factors which may influence these decisions. Our study draws on classical entry mode theories as well as an expansion theory. It provides a comprehensive and multi-layered understanding of determinants of entry mode and expansion strategies of Scandinavian MNEs in China. The study adds new information to

previous entry mode theories and expansion research and uses both quantitative and qualitative methods to enrich our findings.

Overall, most of our quantitative findings do not find statistical support. This shows that our selected entry mode factors do not seem to influence entry mode decisions between a JV and a WOS of Scandinavian firms in China. On the contrary, we find evidence that the expansion strategy of firms is influenced by several internal and external factors. On the one hand, challenges in the Chinese market are mostly related to distance in culture and institutions which seem to play an important role in later stages of expansion. On the other hand, opportunities are connected to China's degree of openness towards foreign investment and economic growth. All in all, the conceptual framework developed in this thesis serves as a useful tool for managers when identifying influencing determinants of entry mode and expansion decisions.

1.1 Research Problem and Purpose

As outlined above, entry modes predictors, choices of ownership levels and following consequences have been researched intensively (Werner, 2002). However, scholars have mainly focused on companies from economies in the OECD (Larimo, 2003) or the Triad Nations, like the United States or Japan, entering various markets worldwide, including China (Canabal & White, 2008). Little emphasis has been put on multinational corporations from Scandinavia entering China. Previous studies have for instance examined to what extent international experience influences the performance of Scandinavian companies in China (Carlsson et al., 2005), how Scandinavian MNEs respond to government pressures in the market (Björkman & Osland, 1998), or the nature of technology spill over of these firms in China (Bruun & Bennett, 2002). Nevertheless, there seems to be a research gap in regards to entry mode decisions and expansion strategies of Scandinavian MNEs. Therefore, our thesis focuses on this particular topic where we examine strategies of firms from Denmark, Sweden and Norway going into the Chinese market. We aim to contribute to existing literature and broadening the view on this specific field of research, by exploring it from a Scandinavian perspective.

Furthermore, research on entry modes has especially focused on entry mode decisions but not on the subsequent expansion in the Chinese market. By regarding the other side of the equation as well, namely after companies have entered China, we contribute to this less researched area in the literature. This is done by unveiling expansion theories and strategies as well as by exploring influencing factors of three Scandinavian case companies. Thus, the development after the initial market entry is also analysed.

1.2 Research Question

As previously outlined, little research has been conducted on the entry mode and expansion strategies of Scandinavian companies in the Chinese market. This leads us to further explore the topic and contribute to literature by formulating the following research question:

How do different factors influence entry mode and expansion strategies of Scandinavian MNEs in the Chinese market?

This central question implies two different paradigms which are also reflected in the structure of this thesis. On the one hand, a strong emphasis is put on the entry mode side of internationalisation. On the other hand, the following expansion of multinational enterprises is regarded. Both parts are inherently connected, also through the challenges and opportunities which can affect both sides of the equation.

1.3 Delimitations

In this thesis, we focus our attention on Swedish, Norwegian and Danish companies which have entered and/or expanded in the Chinese market during the years between 2007 and 2017. We are aware that our study probably would have produced different findings if other industries, home or host countries had been included. In addition, we recognize that our results are specific to the selected time period. In regards to the quantitative part of this thesis, which concentrates on determinants of entry mode decisions, the data is limited to secondary sources. By relying on these sources, we are limited to their provided information. Our quantitative sample is also restricted to contain companies with a minimum of 50 employees. The decision was based on the purpose of investigating MNEs, however a higher firm size restriction resulted in an inadequate sample size. Moreover, our

investigated entry mode choice is limited to choosing between a JV and a WOS. We acknowledge that other entry modes exist, however they are not analysed in this thesis. In addition, we do not focus on investigating differences between the three Scandinavian countries in terms of entry mode and expansion decisions. This is rooted in the similarity of Scandinavian firms in regards to business culture (Carlsson et al., 2005) as well as their political, cultural and societal environment (May et al., 2007). Therefore, analysing Scandinavian MNEs in China as a group was found to be appropriate for the purpose and time frame of our research. Moreover, we are aware that our focus on five selected theories excludes other theories which could have been analysed in connection with our topic. Furthermore, our thesis only covers some of the factors which may influence entry and expansion decisions. For example, solely asset specificity is derived from Transaction Cost Theory while there are other dimensions which could have been included. Also, measurements of variables vary across different studies. This means that our results are reflected by our specific sample choice and measures of variables.

Lastly, we decided only to focus on entry mode and expansion decisions and not on decisions concerning the establishment mode of Scandinavian MNEs in China. This means that it is not in our scope to investigate whether these MNEs establish themselves in China through a greenfield investment or an acquisition in the market. The reasoning behind this is that these two decisions are made independently from each other (Brouthers & Hennart, 2007). Delimitations of this thesis are further discussed in later chapters.

1.4 Thesis Disposition

In order to explore, analyse and finally answer the research question presented above, this thesis is divided into the following chapters:

In the next chapter, a thorough literature review on entry mode and expansion theories is conducted. This review builds the basis of our conceptual framework. The chapter is divided into different sections. First, classical entry mode theories are reviewed, namely, the Eclectic Paradigm (OLI), the Resource-Based View (RBV), Transaction Cost Theory (TCT) and Institutional Theory (IT). The next part is mainly focused on research regarding the institutional environment in China. Following that, other entry mode studies related to

cultural distance are regarded. In addition, the localisation versus globalisation issue, which many multinational companies face, is reviewed. In the next sub-chapter, different types of entry modes are reviewed. Thereafter, an expansion framework of firms in China is presented. The literature review closes with the presentation of our conceptual framework.

Chapter 3 focuses on the methodological framework of this thesis. First of all, the research purpose, operationalization and scientific perspectives are outlined. This is followed by a description of our data collection method which includes a presentation of our sample, variables and logistic regression model. Finally, critical reflections of our chosen methodology are discussed.

In chapter 4, empirical results from our quantitative part are presented. After that, the regulatory environment of China is reviewed through an interview with the Global Law Office. Thereafter, our three case companies, namely IKEA, H&M and Grundfos are introduced.

In chapter 5, findings of both the quantitative and qualitative parts are analysed and discussed. The latter includes an analysis of the interviews conducted with our case companies. The overriding research question is answered and our findings are connected to previous findings and theories presented in the literature review. Finally, a comparison is done between the quantitative and qualitative parts.

Chapter 6 presents conclusions, contributions and future implications which are drawn from the results of this study. The last chapter presents limitations of our research.

2. Literature Review

First, traditional theories in entry mode research are analysed in order to explore factors that generally influence entry mode decisions of Scandinavian companies in China. In the second part of this chapter, expansion theories are explored to find out which factors influence these companies once they have entered the Chinese market. Consequently, this also lays the foundation for an analysis of the challenges and opportunities that firms might encounter when or after having entered China. The chapter ends by outlining our conceptual framework.

2.1 International Entry Mode Decisions and Theories

A substantial part of literature in international business is dedicated to the internationalisation of firms and the reasons behind entry mode decisions. As a matter of fact, entry mode research is the third most researched field in international business (Werner, 2002). This points to its high importance for firms that enter new markets. The entry mode decision is essential for the success or failure in a new market. Therefore, it is critical to the future performance and the company's vision in a long-term perspective (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986; Hill et al., 1990; Sharma & Erramilli, 2004). An entry mode can be defined as a structural agreement which makes it possible for a company to carry out its product or service strategy in a foreign market. This happens either through marketing operations and exports or by having both marketing operations and production located in the foreign country. The latter option can be carried out by the firm by itself through a WOS or in a partnership by forming for example a JV (Sharma & Erramilli, 2004).

A wide array of theories has been used to explain different entry mode decisions. According to Brouthers and Hennart (2007), four theories, namely the Eclectic Paradigm, Transaction Cost Theory, the Resource-Based View and Institutional Theory, have been used the most in entry mode research. Early studies have mainly focused on entry mode choices of firm in the manufacturing industry, and it has been argued that entry mode decisions differ depending on what type of industry a company is operating in. (Brouthers & Hennart, 2007).

Many different internal and external factors, called *determinants of entry modes* (Werner, 2002), have been shown to influence entry mode decisions of multinational companies. These determinants include country-specific factors, firm-specific factors, factors related to transaction costs and factors specific to the industry of the multinational enterprise (Werner, 2002; Pan & Tse, 2000; Anderson & Gatignon, 1986; Brouthers & Hennart, 2007). While country-specific factors take for example differences in cultural or the institutional environment of the host country into account, factors specific to the company can for instance be related to its characteristics, resources and strategies. Industry-specific factors are for example determined by the competitive landscape in the host country which may also affect the internationalisation strategy of a firm (Werner, 2002; Brouthers & Hennart, 2007). Brouthers and Hennart (2007) outline that it is important to understand that an entry into a foreign market is a multilevel phenomenon where many different variables, which originate from several theoretical perspectives, complement each other. In the following sections, selected entry mode theories are looked upon. Thereafter, one selected expansion strategy is addressed to shed light on the less investigated field of post-entry research.

2.1.1 The Eclectic Paradigm

The OLI framework or Eclectic Paradigm, developed by Dunning (2000), is one of the most commonly used frameworks when it comes to explaining internationalisation activities of multinational companies. A variety of different economic theories are part of the paradigm. At the core, it explains that firms engage in FDI when ownership, location and internalisation advantages are jointly present (Peng & Meyer, 2011). This means that the entry mode choice is determined by these three factors (Dunning, 1993). First of all, ownership advantages (O) are not location-bound and thus transferable on a global scale. They help the company gain a competitive advantage and overcome the liability of outsider ship in a foreign market (Peng & Meyer, 2011). In addition, they are connected to costs, benefits and the control of relationships inside the firm (Canabal & White, 2008). Ownership advantages vary greatly and range from tangible assets like technology, to more intangible assets such as the company's culture (Peng & Meyer, 2011). Moreover, they are always considered in relation to the competitors of the company in the foreign market (Dunning, 2000). Secondly, location advantages (L) are connected to the host country and

thus the geographical location which the multinational enterprise targets. The location should offer distinct advantages compared to the home market in order for the firm to compete successfully in the new market and create value (Peng & Meyer, 2011). Availability of certain resources and the commitment and costs of these resources are embedded in this parameter of the OLI (Canabal & White, 2008). This signifies that location-specific advantages are for instance related to the access to raw materials or human resources in the host country. It is emphasised that location-specific factors become increasingly important as firms expand in a country (Dunning, 1988). Thirdly, when the MNE decides to keep its activities in-house instead of externalising them, internalisation advantages (I) can be generated. This means that market transactions are not used by the company because transaction costs are higher than internal coordination costs in this case (Peng & Meyer, 2011). The main goal is to reduce coordination and transaction costs and therefore, generate internalisation advantages (Canabal & White, 2008). Transaction costs are especially prevalent "*when a good or service is transferred across a technologically separable interface.*" (Williamson, 1981, p.552). Moreover, firms should consider to keep their core business in-house to avoid a knowledge loss. This concerns its ownership-specific advantages such as innovations or technology (Peng & Meyer, 2011).

Overall, the Eclectic Paradigm has to be regarded in its specific context in terms of country, industry and the company's motivation for internationalisation (Dunning, 2000). Thus, the three factors outlined above (ownership advantages, location advantages, internalisation advantages), are determining for every company that decides to enter new markets (Dunning, 2000). Based on these arguments, the Eclectic Paradigm is highly relevant in the search for determining entry mode factors of Scandinavian companies in China.

The framework has also been subject to criticism despite its success as an overriding framework in international business. The Eclectic Paradigm has been criticised for not being flexible or dynamic enough to take into account the continuous changes of MNEs. Also, it does not address the role of managers inside these firms (Johanson & Vahlne, 1977). Furthermore, it is not clear how the different sub-paradigms are interrelated as well as how they can be measured. The role of external policies and their interplay with the internationalisation process is also not considered (Devinney et al., 2003). As analysed

later, especially in the context of China, these policies and regulations play a determining role. The framework's applicability to non-manufacturing firms has also been questioned (Dunning, 1989) and its continuous extension has raised complexity. This has led researchers to question the necessity of the paradigm's development and scholars have demanded to return to the roots of the OLI framework (Narula, 2010). Dunning (2000) addressed this criticism by stating that his Eclectic Paradigm is still valid and powerful.

2.1.2 The Resource-Based View

The Resource-Based View is another essential and commonly used theory in entry mode and strategy research. It has developed continuously since the 1980s (Barney, 1991; Sun & Tse, 2009; Wernerfelt, 1984). It is indirectly incorporated in the OLI framework and it can be used as a basis to understand and analyse the ownership advantages of a firm. Resources of a firm are tangible or intangible assets that are closely connected to the company itself (Caves, 1980). A bundle of resources that a company has collected (Sun & Tse, 2009) comprises assets, knowledge and capabilities which can enable the firm to improve efficiency and effectiveness of its operations (Barney, 1991). Resources are for example brand names, specific knowledge, technology, capital or human resources (Wernerfelt, 1984). The Resource-Based View complements other schools like the Transaction Cost Theory (Williamson, 1985), that is drawn upon later, or an analysis on an industry level (Porter, 1980). In this way, the RBV shifted the attention from external market and industry factors to the firm's internal factors and resources.

The resource-based framework was originally developed by Barney (1991) and it entails that competitive advantages can only be sustainable if they are valuable (V), rare (R) and not imitable (I) at the same time. Capabilities and resources are considered rare, if relatively few firms possess them (Barney, 1991). Organisational capabilities (O) of a multinational firm play an essential role in the analysis of ownership advantages as well. These capabilities determine "*what broad-based, heterogeneous factors are critical to business success*" (Roth & Jackson, 1995, p. 1721). If resources and capabilities are not managed effectively, a competitive advantage cannot be sustained abroad in the long-run (Peng, 2008). The so-called VRIO framework, is at the centre of this perspective which emphasises the importance of capabilities and resources of companies (Keillor & Kannan, 2011). Furthermore, Brouthers and Hennart (2007) also suggest that companies should

develop resources to compete successfully in foreign markets. At the same time, firms can make use of international operations by developing and extending resources through their experience abroad. When adopting this view, it is essential to look at firm-specific resources in a contextual perspective. Resources can unleash a different potential or value depending on the market the firm operates in. While resources in one market or industry can be valuable, this is not necessarily the case in another market (Barney, 2001).

Overall, the Resource-Based View unveils the importance of internal factors for the successful entry into a new market. It underlines that a firm can sustain in a new market if its internal capabilities match the external environment of the host country (Conner, 1991). In this regard, the internal factors and ownership advantages of Scandinavian firms in the Chinese market can also be considered crucial to their entry and expansion in a new country as well as to their success or failure in the market.

2.1.3 Transaction Cost Theory

Transaction Cost Theory (Williamson, 1985) has been used to the largest extent among scholars in entry mode research (Brouthers & Hennart, 2007). The theory mainly focuses on the way in which firm- and industry specific factors affect the entry mode decision (Makino & Yiu, 2002). Several studies have found evidence that Transaction Cost Theory plays an important part in explaining entry mode choices of companies (Neupert & Makino, 2000; Williamson, 1985; Hennart, 1991). According to Hennart (1991), the theory assumes that "[…] *the choice between full and partial ownership will depend on the costs and benefits of sharing ownership (joint ventures) relative to those of full ownership (wholly-owned subsidiaries)*" (Hennart, 1991, p. 484). Brouthers (2002) means that several scholars (Makino & Neupert, 2000; Agarwal & Ramaswami, 1992; Williamson, 1985) have described transaction costs as costs which involve monitoring the performance of firms and negotiating with a suitable partner. Williamson (1985) suggests that transaction cost economies are characterised by behavioural assumptions related to bounded rationality and opportunism. These behaviours are influenced by the complicated attributes of transactions. Bounded rationality relates to how rationality is intended but also limited by economic actors. Opportunism refers to self-interest seeking behaviour, where information from another party is distorted or incomplete.

In Williamson's (1985) theoretical framework of transaction costs, three dimensions are believed to describe different types of transactions, namely, asset specificity, degree and kind of uncertainty as well as frequency of transactions. To begin with, ***asset specificity***, which is often considered to be the most important factor, is described as "[…] *the degree to which an asset can be redeployed to alternative uses and by alternative users without sacrifice of productive value*." (Williamson, 1989, p. 142). Williamson (1989) made five distinctions of asset specificity, namely site specificity, human asset specificity, physical asset specificity, brand name capital and dedicated assets. The concept of asset specificity was originally developed by Williamson (1985) to describe vertical investments, where customers or suppliers have to make specific investments to buyers. The opportunistic behaviour that occurs after the investment has been made is related to a product's price, which the other party may want to change to its advantage. In order to avoid these situations, contractual agreements are used to specify the price and length of transaction-specific investments (Brouthers & Hennart, 2007). Transaction Cost Theory assumes that a high level of asset specificity is associated with high control modes of entry, such as WOS, however past studies have found mixed support for this prediction. Differences in the definition of asset specificity may explain the variations in results. Most studies have used R&D intensity while some studies have used for example human or technology asset specificity as a measure for asset specificity (Brouthers & Hennart, 2007). Transaction cost research, related to asset specificity, has not only focused on vertical investments, but also on horizontal investments which are made to exploit for example knowledge or innovation developed in another market. Depending on the degree of asset specificity, MNEs decide between licensing and integration, where the former is chosen when asset specificity is low and strategies such as WOS or JV, are chosen when it is high (Brouthers & Hennart, 2007).

The dimension of Transaction Cost Theory, namely ***uncertainty,*** relates to the degree of unpredictability with which transactions are associated (Williamson, 1985). This can be difficult to specify in a contract (Brouthers & Hennart, 2007). Different governance structures vary in their capabilities of dealing with disturbances in an effective way. These differences depend on the existence of bounded rationality (Williamson, 1985). According to Williamson, uncertainty is problematic only when switching costs are high and there are few possible buyers and sellers. Contracts then become less efficient and may lead to holdup of the other party (Brouthers & Hennart, 2007). Cultural distance and country risk

are two factors which have often been used by scholars to determine the level of external uncertainty. However, the way in which these factors have been measured have differed to a large extent. Internal uncertainty has often been measured in terms of experience in the host market, worldwide or measured as total number of foreign investments. Researchers have reached mixed results when it comes to the level of uncertainty and its effect on entry mode choice (Brouthers & Hennart, 2007).

The third dimension of Transaction Cost Theory, namely ***frequency,*** refers to the capacity of governance structures to handle a certain volume of transactions (Williamson, 1985). Frequency influences a firm's transactions in the way that a company should choose certain boundary expansion strategies only if the number and volume of transactions are large enough to justify the costs related to them (Brouthers & Hennart, 2007).

Transaction Cost Theory has been subject to criticism because it omits variables which may be important when making an entry mode decision (e.g., Chi & McGuire, 1996; Gomes-Casseres, 1990; Kim & Hwang, 1992; Reuer & Tong, 2005). That is why different researchers supplemented this theoretical construct with key ideas from Institutional Theory. This approach should close the apparent gap which Transaction Cost Theory displays in its explanation of entry modes decisions (e.g., Davis et al., 2000; Lu, 2002). Based on these findings and its importance in entry mode literature, Institutional Theory is outlined in the following section, to complement Transaction Cost Theory.

2.1.4 Institutional Theory

Research on Institutional Theory proposes that a market's institutional environment influences the boundary decisions of companies and sets the "*rules of the game*" (Brouthers & Hennart, 2007, p. 405) in a certain market (Brouthers & Hennart, 2007). When related to foreign entry modes, the theory focuses on influences from institutional forces. These are embedded in a country's institutional environment and cognitive constraints of decision makers, when it comes to new expansion (Makino & Yiu, 2002). Institutional Theory has been studied from different perspectives. In regards to the firm's boundary choice, institutional research has mostly been focused on the institutional environment in the host country or variations in the environment between the home and the host market, and the way these differences may affect the entry mode decision

(Brouthers & Hennart, 2007). Institutional Theory seems to point to the suggestion that a company's ability to exploit and upgrade its capabilities differs depending on the institutional environment of a nation (Brouthers, 2002). North (1991) defined institutions as "*humanly devised constraints that structure political, economic and social interaction*" (North, 1991, p.97) and he claimed that they include both informal constraints as well as formal rules in a society (North, 1991). Examples of the former are customs, traditions and codes of conduct whereas laws, property rights and constitutions are examples of the latter. According to North (1991), the role of institutions is to reduce uncertainty and thereby to create order. Institutions also create an economy's incentive structure and as this develops, the direction of economic change is formed towards growth, decline or stagnation. By reducing transaction and production costs, benefits from from trade can be realised (North, 1991). Institutions influence the performance of the economy by their effect on production and exchange costs. North (1990) means that his theory of institutions is a result of a mixture of Transaction Cost Theory and a Theory of Human Behaviour. Institutional frameworks present organisations with certain opportunities, and certain skills are promoted by the shape of an economy. In turn, these skills will form the direction of development and progressively alter the institutional framework (North, 1990).

As economies evolve, the institutional environment also changes and develops (North, 1991). Entry mode performance can be significantly affected by the institutional context in a market since it influences the way in which organisational capabilities can be used (Davis et al., 2000). Lu (2002), investigated the way in which entry mode choice is affected by institutional influences compared to transaction-cost associated influences. The results showed that institutional influences have a significant impact on international strategy formulation and implementation (Lu, 2002). Brouthers (2002) conducted a study which examined the connection between firm performance and entry mode choice. An extended transaction cost model was developed where cultural and institutional variables were used in addition to efficiency variables including asset specificity and general transaction costs. The research found that entry mode decisions matter in regards to performance. It also found that companies which based their entry mode decision on the extended transaction cost model, performed better than companies which based it on other types of modes which did not account for these factors. In other words, the study found that entry mode decisions are influenced by a mixture of institutional and cultural variables as well as the

nature of transaction costs. In terms of institutional context, the study found support that companies which enter markets characterised by a higher degree of legal restrictions tend to use JV rather than WOS as mode of entry (Brouthers, 2002).

New Institutional Theory (NIT) has also been adopted by researchers in order to explore what institutional factors should be taken into account in entry mode studies (Brouthers & Hennart, 2007). Scott (1995), focuses on the "*new*" institutionalism and means that differences exist in nations' institutional environment and that institutions might be cognitive, regulative or normative. Cognitive institutions focus on common and highly ingrained understandings of social reality, regulative ones on the creation and enforcement of rules and normative ones on shared moral understandings (Scott, 1995). Another example of this new path of research related to entry modes and Institutional Theory, is a paper by Yiu and Makino (2002). The study, which is further discussed in chapter 2.1.6.1, investigates the effect of cognitive, regulative and normative influences on entry mode decisions while controlling for transaction cost-related influences (Brouthers & Hennart, 2007). The paper concludes that Institutional Theory provides foreign entry mode decisions with additional explanatory power and thereby supplements Transaction Cost Theory. Moreover, cognitive, regulative and normative dimensions of the institutional setting, are all found to influence entry mode decisions (Makino & Yiu, 2002).

The level of economic and political risk in a host country, is the perspective of the institutional environment which has been explored the most in conceptual and empirical papers on entry mode decisions (Delios & Beamish, 1999). Delios and Beamish (1999) investigated the ownership strategy of Japanese firms in Asia. The paper found that international experience and the institutional environment were the two factors which influenced the selected entry mode the most. In addition, transactional factors were shown to have a much lower influence on the chosen ownership strategy (Delios & Beamish, 1999). A study by Hill et al. (1990), developed a framework which identified underlying factors which affect entry mode choices. The paper suggests that when host country risk is high, MNEs may reduce their exposure and lower their transaction costs by choosing modes with lower resource commitments. The reason is that a lower control mode, such as JV, gives MNEs an opportunity of leaving the market faster, compared to in a mode of higher commitment, such as WOS (Hill et al, 1990). Similarly, other studies have found

support that political risks, such as expropriation (Bradley, 1977), can be limited by lowering the ownership commitment in the host country by for example sharing the ownership with a local partner (Hennart, 1988; Bradley, 1977). Corruption can be seen as another type of political risk and Uhlenbruck et al. (2006), studied the impact of corruption on entry strategies in emerging markets. The research found that corruption had a significant effect on entry mode decisions. For instance, a JV is preferred over a WOS in corrupt markets, however that is just when arbitrariness is high (Uhlenbruck et al, 2006).

In regards to intellectual property rights (IPR) protection, most studies in this area have focused on the way it affects the nature of FDI and not as much on the way it influences different ownership structures (Delios & Beamish, 1999). The study by Delios & Beamish (1999), found that Japanese firms undertook higher levels of ownership structures in countries where intellectual property rights were weaker. These findings are in line with arguments by Williamson (1996), where he argues that an institutional environment with weaker property rights increases the cost of using a lower control mode. This increases the risk of leakage of proprietary assets to competitors.

Overall, the review on Institutional Theory shows that the institutional environment influences firms' entry mode choice. A higher degree of uncertainty such as increased host country risk seems to lead to the choice of a lower ownership commitment in the host country. The review also shows that the theory complements Transaction Cost Theory. The next section looks into China's institutional environment.

2.1.5 China's Institutional Environment

An industry's competitive structure and its options available to MNEs are influenced by host governments and national policies. Prahalad and Doz (1987) mean that MNEs can increase their bargaining power towards host governments by taking on a global integration strategy. However, the scope for coordination and integration is often limited by host governments and these may have certain demands in terms of local responsiveness. For instance, these could be related to protection of the national development or issues related to national security (Prahalad & Doz, 1987).

Several scholars have examined how MNEs interact with governments in China (Chen, 2007; Child et al., 2003; Child & Tse, 2001). The government plays a salient role in China's business environment and economic development. The institutional environment has gone through several reforms which have influenced the level of uncertainty of foreign companies in China. As the country's institutional environment develops towards privatisation, transaction and information costs as well as foreign companies' dependency on local partners and the government, are expected to decrease. In addition, more transparent rules and an increased enforcement of IPR is expected to reduce the resource dependency between home and host country players in the market. In regards to entry mode strategies, this means that the decision of entering through a JV will be less determined by a company's ties to the government. They will be more determined by rational considerations and strategic factors such as competitive advantages and resource complementarity in the local market (Child & Tse, 2001). However, the performance of firms has been shown to depend on their ability to adjust their objectives to shifts in the institutional environment (Chen, 2007). Institutional limitations have in the past prevented foreign companies from taking forceful legal action against piracy (Child & Tse, 2001). In China, different levels of governmental hierarchy create regulations and laws which differ depending on the industry and authority that a company is subject to (Child et al, 2003). Chen (2007) studied the topic in relation to MNE's strategic management of government affairs in the Chinese market. The Chinese government, which operates under an authoritarian political system, has a very large degree of power in all aspects of society and this greatly affects the business environment of MNEs. In addition, the government in China has a very complex structure and regulations differ across industries (Chen, 2007). Regulations concern different areas of doing business in China as for example localisation, geographic coverage or restrictions on distribution. They have largely influenced the strategies of MNEs including market orientation, human resources and financial management (Beamish & Jiang, 2002; Luo, 2000). However, barriers to entry and other regulatory hurdles have also been relaxed. Especially when it comes to WOS and foreign ownership, China has opened up more industries to foreign investment. Previously restricted sectors, such as the retail industry, are not tightly regulated anymore in terms of entry mode choice, partner selection or location of entry (Luo, 2007).

The success of MNEs in regulated and fast changing industries is believed to be explained by their ability to quickly adjust their strategies to changes in government policies or the regulatory environment in the nation. In more stable industries, communication and work towards enhancing relationships with the Chinese government and local partners are important factors in reducing governmental barriers of MNEs' operations. The need for constant interaction with the government increases with the degree of regulation in the industry. The characteristics of the political system and economy of China makes it essential for MNEs to interact with the government in order to deal with threats and opportunities in their surroundings (Chen, 2007). When emphasising the institutional environment of China based on Transaction Cost Theory and Institutional Theory, we acknowledge that other environmental factors of the Chinese market also play a major role. This includes for instance macroeconomic, political-legal or demographic determinants (Luo, 2007).

2.1.6 Other Entry Mode Theories

In the following section, other entry mode theories are introduced in order to complement the previously examined the theories. The following two theories are reflected in the chosen variables of the conceptual framework, which can be found in chapter 2.4.

2.1.6.1 Cultural Influences on Entry Mode Decisions

Cultural influences on entry mode choice have been studied by an array of scholars (e.g. Yiu & Makino, 2002; Agarwal, 1994; Kogut & Singh, 1988; Makino & Neupert, 2000). Agarwal (1994) states that it is extensively believed that companies which face high socio-cultural distance, choose JV as their entry mode. Not only have cultural influences on entry modes been studied, but also the nationality of MNEs and its impact on this decision (Erramilli, 1996). In order to measure national and cultural differences, Hofstede's (1980) cultural indices have been used by various scholars (Makino & Neupert, 2000; Erramilli, 1996). Hofstede (2001) identified four different cultural dimensions, namely uncertainty avoidance, power distance, masculinity vs. femininity and individualism vs. collectivism. Firstly, **uncertainty avoidance** refers to the extent to which ambiguity and uncertainties in the future are accepted by society (Hofstede, 2001). This is an important trait of MNEs that move to unexplored markets. Secondly, **power distance** relates to the unequal distribution of power in society and to what extent this is accepted (Hofstede, 2001). This

implies that companies from countries with a high power distance would prefer to choose an entry mode where higher control can be exerted. Thirdly, **masculinity vs. femininity** expresses that some cultures put a stronger focus on traits like competitiveness or assertiveness while others dominantly stress cooperative and caring values (Hofstede, 2001). More "*masculine*" countries would for example have a preference for entry modes with a higher risk, which is rooted in the prevalence of their values. Lastly, the dimension **individualism vs. collectivism** describes whether individuals are more closely connected to their families and concerned with themselves or if they are loyal to groups in society (Hofstede, 2001). This can also affect entry mode decisions. National differences in culture are obtained from differences in these scores (Hofstede, 1980). Later, a fifth and a sixth dimension, namely long-term vs. short-term orientation (Hofstede, 1991) and indulgence vs. restraint were identified and added to the framework (Hofstede et al., 2010). However, we do not focus on these newer dimensions in this thesis.

Yiu and Makino (2002) investigated the impact of cultural influences on entry mode choice. The results suggest that entry mode choices are influenced by the normative factors cultural distance and ethnocentricity. However, regulatory forces such as legal restrictions and sanctions, and cognitive forces originating from for example MNEs historical entry mode patterns, were shown to be more critical in their impact on entry mode choice. A possible explanation for this is that normative factors take longer to observe and cannot be as easily identified as the other factors before operations start in the host country. In addition, it takes longer for MNEs to build up normative legitimacy in the value systems of locals compared to establishing regulative and cognitive legitimacy (Yiu & Makino, 2002). Similarly, Kogut and Singh (1988), tested the effect of national culture on entry mode choice, and found empirical support that there is a relationship between cultural aspects and the entry mode choice of a company. When the cultural distance between countries is large, there is a higher probability that a firm will enter through a JV rather than through a WOS. Moreover, their study concludes that institutional and cultural factors should to be taken into account in transaction cost models, which are used to explain entry mode choices (Kogut & Singh, 1988). Even though Kogut and Singh's (1988) cultural distance index has been frequently used in previous studies, the method has received criticism in regards to its conceptualisation and methodological properties of measuring cultural distance (Shenkar, 2001).

Overall, several scholars have found support that cultural aspects, particularly the cultural distance between the home and the host country, influence a firm's entry mode choice. In the next section, the choice between localisation or globalisation strategies in a foreign market is reviewed.

2.1.6.2 Localisation and Globalisation Strategies

A company with extensive international presence is likely to follow a strategy that operates on a worldwide level. However, it has been argued that companies will perform better by following a regional strategy in addition to, or as a substitute to, a global strategy (Ghemawat, 2005). Ghemawat (2005), means that successful global companies seem to have realised that geographical distinctions are becoming more and more important. Moreover, they have understood that focusing on a regional strategy as well as a local and global strategy can lead to better company results. Regionalisation does not only mirror the significance of geographic proximity, but also the importance of administrative, cultural and to some degree, economic proximity. Although creating regional strategies is important, the implementation of these can take a while. This can be explained by the fact that the current structure of the firm may not be in line with a regional strategy, and decision power may need to be reallocated within the company (Ghemawat, 2005). Companies with operations around the world may face challenges when it comes to effectively controlling foreign operations, how to implement global strategies or how to strategically respond to differences across markets. In addition, companies may need to modify its regional strategy to the Chinese market as it is different from other countries in the region in terms of the competitive environment.

Consumer preferences which are particular to the host country and local market structure have always been reasons for obstacles to globalisation. Some firms for example try to deal with these differences by creating standardised products worldwide, while others try to meet local preferences by differentiating products across markets (Bartlett & Ghoshal, 2002). The degree to which companies' foreign subsidiaries respond to local demands or competition is known as local responsiveness. The pressures of local responsiveness and global integration of activities originate from the economic, competitive and technological nature of a business (Prahalad & Doz, 1987). Bartlett (1986) discussed the forces of global coordination/integration in relation to the forces for national

responsiveness/differentiation. He suggested that industries are often characterised by differences in to what extent they respond to these forces. However, firms within any industry also respond differently to these, usually contradicting, forces of local differentiation and global coordination of activities. In order to achieve both local adaptation and global integration, MNEs are suggested to follow a transnational strategy (Bartlett, 1986). The degree of global integration versus local responsiveness has been illustrated in a matrix by Bartlett and Ghoshal (1989). It includes four types of strategies as shown in figure 1. The strategies vary in the level of control and influence which a parent company has on its local subsidiaries, and their degree of operational autonomy in the foreign market (Bartlett & Ghoshal, 1989).

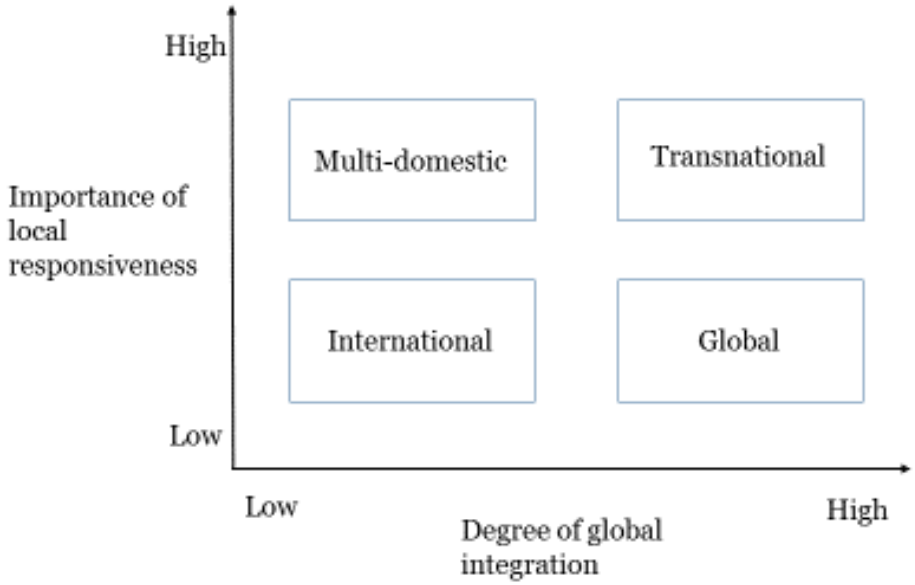

Figure 1 - Matrix of Global Integration versus Local Responsiveness (adapted from Bartlett & Ghoshal, 1989).

The decision making power of subsidiaries may vary and flexible relationships between subsidiaries and headquarters are needed in order to make the strategic decision process follow competitive conditions in the market. In order for the headquarters to assign different strategic tasks to subsidiaries in line with the overall global strategy, it needs to be able to include the most important subsidiaries in the development of this strategy. Nevertheless, the complexity of this relationship is influenced by host governments, which should be seen as modifiers of the competitive characteristics of an industry (Prahalad &

Doz, 1987). The performance of affiliates in other markets can be improved by developing a relationship which is characterised by confidence as well as close integration and control between the parent and affiliate (Child et al., 2003). Luo (2001) examined determinants of local responsiveness in the dynamic environment of the Chinese market, from a subsidiary manager perspective. The study found that business culture particularity and environmental complexity enhance local responsiveness where locally established connections with the Chinese government and other businesses were shown to make local responsiveness easier (Luo, 2001).

2.1.7 Motivation for Focusing on the Chosen Entry Mode Theories

As explained by Brouthers and Hennart (2007), a large amount of theories has been used in literature to analyse entry mode choices. We are aware of the fact that theories such as Control Theory, Bargaining Power Theory, and Agency Theory have also been used to explain entry mode choices (Brouthers & Hennart, 2007). However, the focus of this literature review and the later developed conceptual framework is on the four most applied entry mode theories; the Resource-Based View, Institutional Theory, the Eclectic Paradigm by Dunning and the Transaction Cost Theory. In addition, the Evolutionary Process of Global Market Expansion (Cui, 1998), is included as an expansion theory. We chose to build upon these classical theories and main theoretical concepts because of their theoretical quality, continuous and extensive usage in entry mode literature in the past decades. Furthermore, in combination with the internal and external factors extracted from research, the theories are considered suitable to meet the objective of this thesis by unveiling influencing entry mode factors.

When regarding the topic with various theoretical lenses, adapting a fragmented view, which only concentrates on a single theoretical approach and solely provides partial explanations, is avoided. A great part of entry mode and internationalisation literature focuses on one-sided theoretical constructs which do not provide a holistic perspective on the complex entry mode phenomenon. Some scholars tried to remedy this one-sided view (Hill et al., 1990, Brouthers & Hennart, 2007, Morschett et al., 2010). As outlined in previous chapters, some of the chosen theories also complement each other and specifically address weaknesses of each other, as for instance the Transaction Cost and Institutional Theory (Puck et. al., 2009).

2.2 Types of Entry Mode Strategies

Once a company has decided to enter a foreign market, a decision regarding its entry mode has to be taken (Hill et al., 1990). According to Pan and Tse's (2000) hierarchical model of entry modes, a distinction between equity-based and non-equity-based entry modes is drawn. This is based on, whether an equity investment is executed or not. Equity-based entry modes are differentiated between WOS and JV while non-equity based entry modes are either contractual agreements or exports to the host country. The entry modes can be broken down even further as shown in figure 2 (Pan & Tse, 2000). When taking on this view, entry modes are examined from a hierarchical perspective (Kumar & Subramaniam, 1997).

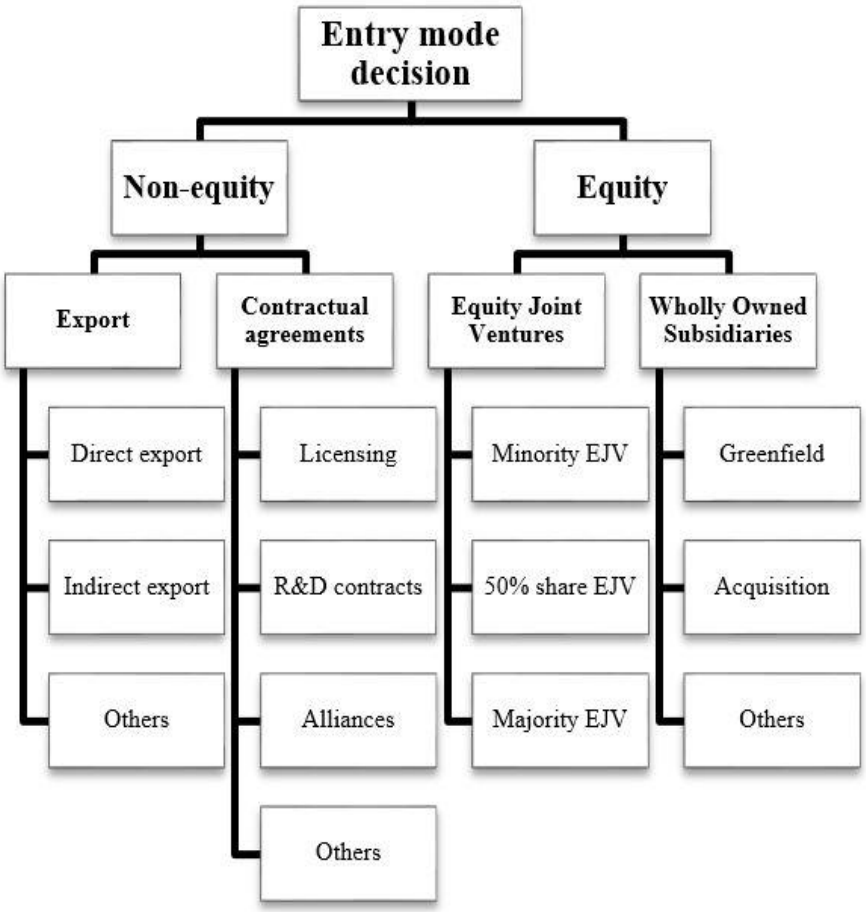

Figure 2 - A Hierarchical Model of Entry Mode Choices (Pan & Tse, 2000, p.538)

The entry modes presented in figure 2 have different underlying implications. These concern for example the foreign resource commitment, the level of control in regards to its

operations in the foreign market and the level of dissemination risk when expanding to a new market. This implies, that the decision regarding the appropriate entry mode is indeed a complex and difficult one to make (Hill et al., 1990). It is also critical to the success of the operations abroad (Davidson, 1982; Killing, 1982, Root, 1987). On the one hand, equity-based entry modes are characterised by a high level of resource commitment through the direct investment in foreign operations (Anderson & Gatignon, 1986) and the establishment of an independent operation. This operation has to be managed continuously and interacts constantly with local parties (Hill et al., 1990). On the other hand, non-equity entry modes do not require the setup of an autonomous organisation. Agreements and relationships between stakeholders are defined and fixed in contracts. Consequently, the two main entry mode categories in the hierarchical model differ greatly in terms of resource commitment in the foreign market, control over operations, risk and other characteristics (Pan & Tse, 2000). This hierarchical model adopts the view that different factors are taken into account on various levels. In turn, it explains more precisely how entry modes are affected by different variables on different stages in the decision process. At the first decision level, macro-level and country variables are decisive. This is not the case in the lower hierarchical levels (Pan & Tse, 2000).

The entry mode choice which has been studied the most by different scholars is the one between a JV and a WOS (Brouthers & Hennart, 2007). This is due to the importance and dominance of these two entry modes of MNEs into the Chinese market. Before 1997, JVs were the most commonly chosen entry mode into China. This was also rooted in regulations imposed on foreign companies which required them to enter with a Chinese partner. Following that, WOS were used more frequently as a mode of entry into the Chinese market (Yan & Warner, 2002). Many MNEs also changed their initial entry strategy from a JV to a WOS due to the changes in regulations (Puck et al., 2009). Based on this information, the focus of this thesis is put on these two entry modes, mainly in the quantitative part. Hill et al. (1990) developed a framework to characterise these two entry strategies among others. In their paper, it is argued that international business literature focuses mainly on three different entry modes: licensing, WOS and JV. This is a strong simplification of the hierarchical model by Pan and Tse (2000), which examines entry modes from a different angle and in greater detail. The two chosen entry modes are looked

upon and defined regarding its different levels of control, resource commitment and risk as framed by the eclectic theory of Hill et al. (1990).

2.2.1 Wholly Owned Subsidiary

A WOS is fully owned by the parent company and not shared with another partner, as for example a JV (Miller, 1998). By choosing this entry mode, parent companies can exert the highest level of control over its operations compared to all other entry modes. This means that a high level of authority over decisions on an operational and strategic level can be executed. Hill et al. (1990) emphasised that the corporate office of the MNE always has the ultimate control, although some authority over daily operations and few strategic decisions might be delegated to foreign subsidiaries. When it comes to resource commitment, the entry mode WOS requires a high level of investments. This signifies that dedicated tangible or intangible assets cannot be used alternatively without the occurrence of costs. On the one hand this means that sunk cost can pose a risk if foreign operations are not successful. On the other hand, the dissemination risk is relatively low compared to other entry modes because of the high level of control which the MNE has over its foreign operations. This makes it difficult for partners or competitors to assimilate technology or knowledge (Hill et al., 1990).

2.2.2 Joint Venture

A JV can be defined as a commercial agreement between two or more parties in order to cooperate and achieve a mutual goal. It is considered a strategic alliance and if chosen as an entry mode, it becomes an essential part of the international expansion of a firm (Lopez-Navarro et al., 2013) and is therefore a major strategy in expansion (Kogut, 1989). In a JV, partners share assets, revenues and expenses and thus, the ownership of the company (Gong et al., 2005).

JVs may display different levels of control depending on the contractual agreements. The level of control differs depending on the split of ownership, the number of different partners involved and the share of control between the parties. A JV mode of entry exerts a medium level of resource commitment that again, strongly depends on the partner relation and contractual settings. Compared to a WOS, a JV has a higher risk of dissemination which is rooted in the partnership relation to a local company. The latter involves the risk

that partners absorb knowledge and technology and disseminate know-how or use it for different purposes (Hill et al., 1990). The entry mode can therefore be seen as a means to access resources and knowledge embedded in another firm (Kirby & Kaiser, 2003).

2.2.3 Other Entry Modes

Other entry modes can be found on the non-equity based side of the hierarchical model and are not examined in greater detail in the following chapters of this thesis. These are for example **exports** and contractual agreements such as **licensing** (Pan & Tse, 2000). Exports are goods and/or services that are transferred across nations (Miller, 1998). While the product and/or service is produced and developed in the home country, it is sold in the host country, mostly through an entity there (Johnson & Tellis, 2008). Research has suggested that before having gained experience in a foreign market, firms often use exports as their entry mode (Brouthers & Hennart, 2007). This is in line with early internationalisation theories which claim that, an early entry into a new market starts with low-risk, "*simple*" entry modes. Moreover, this perspective supports the view that with increasing experience and knowledge in the new market, there is a higher likelihood that firms will engage in equity-based entry modes. This is especially the case with a growing customer base and increased brand awareness in the new market (Philippe & Léo, 2011). Contractual agreements and licensing are transactions which determine that the right to control and use specific property, knowledge and assets is given to another organisation. The partner is allowed to make use of the tangible and intangible assets, given certain contractual conditions (Luostarinen & Welch, 1990). Dissemination risks are high and control is low when taking on a licensing mode of entry. However, resource commitment is also relatively low compared to equity-based entry modes (Chen & Messner, 2009; Hill et al., 1990; Hill & Kim, 1988). Figure 3 (Dess et al., 2014), illustrates some of the most important entry modes and their characteristics in terms of risk and investment level as well as degree of ownership and control.

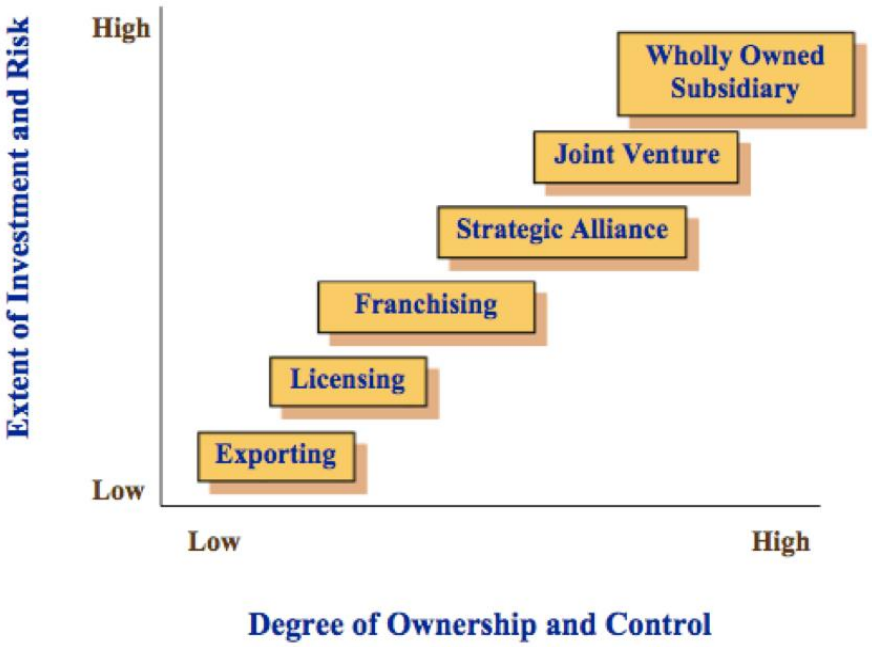

Figure 3 - Entry Modes for International Expansion (Dess et al., 2014)

2.3 International Expansion Theories

As examined in the previous chapter, a part of the firm's international expansion is the entrance into a new market. However, there is more to international expansion of multinational enterprises than solely its entry mode decision. It also covers a firm's further expansion in the new market (Cui, 1998). According to various studies, expansion of multinational firms can be considered as an evolutionary process. This signifies that companies acquire more and more knowledge when operating overseas. They gradually secure resources which are important to them and slowly adapt to the host country conditions of doing business. In pursuing this, companies aim at improving efficiency, gaining market share and increasing profitability (Douglas & Craig, 1989; Craig & Douglas, 1996a). Lambkin and Day (1989) suggest, that a key factor of a successful expansion is related to the degree to which a company manages to match its resources with environmental conditions in the host country. Also, the expansion process has various facets and different operations of the firm are involved (Craig & Douglas, 1996b). As outlined before, numerous studies have dealt with entry modes and many factors and variables on a macro and firm-level have been identified as determinants. Other research concentrates on expansion as a gradual process with a number of stages, which companies

go through (Johanson & Wiedersheim-Paul, 1975). In this process, firms constantly develop their knowledge, which is essential in diminishing uncertainties and risk, as well as in the determination of resource commitment (Johanson & Vahlne, 1977). When going through different expansion stages, firms transform incrementally and their management orientation might evolve and change, for example from multinational to transnational and global or through similar stages (Perlmutter, 1969). Other studies primarily identified the variables that influence global expansion. Thereby, the expansion process is often seen as the dependent variable which is explained by a row of different factors (Cui, 1998). According to Douglas and Craig's (1989) framework, companies go through three stages when taking on the evolutionary process perspective: first the market entry, then expansion in the market and finally global rationalisation. Each of these stages is characterised by different challenges and priorities. Internal and external determinants called *triggers* make a firm enter a market. The direction of expansion, called *strategic thrust,* and advantages specific to the firm and each stage (*international levers*) influence the behaviour of the company. Johanson and Wiedersheim-Paul (1975) suggest similar successive stages, namely entry, expansion and experienced. Different studies (Sun, 1999; Osland & Cavusgil, 1996) support the validity of this view for multinational firms in China. The activities of MNEs that internationalised to China, show that their expansion process has different steps. It involves interaction between the firm, its structure, strategies and global experience, with its external environment including the Chinese market, industry and home country structure. A substantial learning process is at the core of this. Moreover, multinational firms adopt various strategies to deal with challenges and targets specific to each development stage in the Chinese market. Based on the theories outlined above, the evolutionary perspective of global market expansion is examined in the following section in order to provide a holistic understanding of the expansion process which MNEs go through in the Chinese market (Cui, 1998).

2.3.1 The Evolutionary Process of Global Market Expansion

As outlined in the previous section, international expansion of multinational companies is an incremental, sequential process of development and adjustment. Cui's framework (1998) builds on these theories and complements the different stages of expansion which a firm goes through when entering and expanding in the Chinese market. Four different expansion stages are proposed in his research and can also be seen in figure 4. In line with

previous research, he emphasises that every stage differs in terms of environmental characteristics and challenges. These have an influence on the priorities and goals of the firm (Cui, 1998).

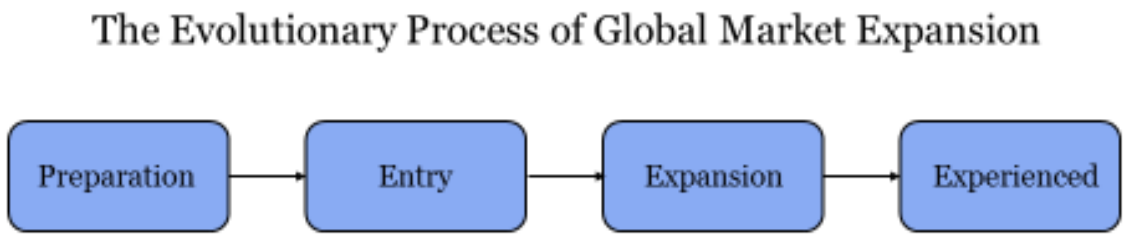

Figure 4 - The Evolutionary Process of Global Market Expansion (adapted from Cui, 1998)

2.3.2 Preparation Stage

The initial stage, known as preparation, is an essential one in the expansion process. A lack of knowledge about the host country and target market is ideally met with an analysis and assessment of the new market environment. Pre-entry activities may include information gathering, relationship cultivation and a thorough risk assessment. A transaction cost analysis and a financial analysis are key as well. MNEs often face the problem of correctly estimating demand in the Chinese market. The right place and time of entry are also determining factors which have to be assessed. Many multinational firms spend a considerable amount of time with research before they enter a market. This often involves courting the government of China and key persons with banquets, free seminars or training offers. All in all, a thorough research and preparation is essential before entering the Chinese market (Cui, 1998).

2.3.3 Entry Stage

After having acquired more knowledge about the target market by doing research, the level of estimated risk and uncertainty should be reduced, which in turn increases resource commitment. In this phase, a decision regarding the firm's entry mode is important as well as the determination of the firm's time and place of the entry. While it is possible to first establish a representative office in the respective country, a lot of multinational firms enter by directly investing in China. In this specific stage of experimentation and expansion, MNEs learn to deal with Chinese bureaucracy and they establish relationships with

partners and the main governmental agencies in China. Furthermore, they navigate through the jungle of regulations, obligations and other upcoming challenges to extend the scope and scale of their business abroad (Cui, 1998). Although China is a very promising market, this stage implies that the market is a rather challenging one as well. Many MNEs have entered China and for some of them, this decision has turned out to be not satisfying (Braun, 1989; Mann, 1989). This is for example rooted in declining sales, rising costs and inefficiencies in the work force there (Cui, 1998).

2.3.4 Expansion Stage

An expansion decision is made or discarded based on the entry stage. This means that a company commits more resources incrementally when it decides to expand. Upcoming and changing external factors and a preceding success or failure of the firm's entry, influence the expansion decision. In this stage, MNEs tap into new geographic markets inside the borders of China and they might identify new products to offer. Hereby, it becomes essential to investigate and monitor economic trends, political events and the environment in the host country in general. Firms have to search for market opportunities in order to seize them. With expanding operations, new challenges come up which concern for example negotiations to set up new operations, the establishment of a well-functioning distribution network or new marketing strategies. Moreover, challenges concern for instance sourcing, customer service or the search for qualified employees in a new geographic area. So what role does the Chinese market environment play at this stage of internationalisation? At the end of the 20th century, the Chinese market stabilised in regards to foreign investment policies, regulations and possibilities for foreign companies to profit from reforms. Back then, consumer demand and life conditions started changing tremendously to the better in many parts of China. A higher pace of life made for instance convenience products and new forms of entertainment more popular. Tariffs on some foreign products were reduced which led to a higher demand (Cui, 1998). Although China has experienced an economic slowdown, the country's consumer economy is expected to expand. Moreover, in the past few decades an emerging middle class has been established (Kuo, 2016), together with an increasing demand for consumer goods and services which has created opportunities in several industries (Perkowski, 2012). This opens up great possibilities for expansion, however differences are big inside the country. Cui (1998) emphasises a lot that there is not "*one*" China and that every Chinese region differs in

terms of demand, economic development, regulations, policies, infrastructure, distribution and so on (Cui, 1998). These regional differences have to be taken into account when assessing the expansion readiness as well as when planning and executing the final strategy.

2.3.5 Experienced Stage

Multinational companies that have established themselves successfully in the foreign market often control headquarters in China and have several operations in different regions. At this stage of expansion, the foreign division should represent a significant part of the company's revenues on a global scale. Moreover, it should have become an essential and irreplaceable part of the company's strategy worldwide. New priorities emerge driven by a higher presence and recognition of the brand. These may include a higher focus on continuous innovation, defending and expanding the market share as well as increasing competitiveness and/or penetration of the market. Over time, more and more companies enter the market which increases competitiveness and the need to innovate and defend the position in the market. Many multinational companies, including our case companies IKEA, H&M and Grundfos have been in China for at least a decade (Jonsson, 2008; Hellstrom, 2008; Grundfos, 2017a) and employ thousands of people (H&M, 2017i; IKEA, 2017c; Grundfos, 2017a). The growing workforce of many companies in China, implies that an efficient human resources strategy is needed to attract the most qualified employees. In order to operate and compete effectively, it is important to integrate and also coordinate different operations in the Chinese market. This is crucial to ensure cost efficiency, a high quality at low prices and sufficient supply. The coordination and integration of activities can pose a several challenge (Cui, 1998).

2.3.6 The Evolutionary Perspective as an Expansion Framework of Multinational Companies in China

Overall, the Evolutionary Process of Global Market Expansion provides a framework of different strategic stages and transitions which MNEs go through in the expansion process in the Chinese market. In this way it provides a basis for multinational companies in the strategic decision making process. MNEs can derive guidelines for their expansion planning process by using the framework as a tool. All in all, the framework emphasises that it remains essential to monitor the market and adapt continuously to the ever-

changing market environment in China. In this way critical decisions regarding expansion strategies can be taken. Thus, the incremental entry experience of MNEs and their continuous acquisition of market knowledge, lead to a more sophisticated approach to the Chinese market. This also supports new entrants in seizing opportunities in China. These chances might be recurring and can be similar to the ones of companies which have entered earlier. In this way newcomers can benefit from the experience of successful MNEs regarding entry and expansion. Finally, flexibility, adaptability and resourcefulness are key to meet challenges adequately and expand successfully in China (Cui, 1998).

2.4 Conceptual Framework

A conceptual and analytical framework addresses the main elements which are examined and studied in a paper (Miles & Huberman, 1994). As pointed out before, a wide range of classical theories, including internal as well as external factors, are related to entry mode decision of multinational companies in China. This nexus of different influencing theories and factors together provide an eclectic, comprehensive and also multi-layered perspective on entry mode decisions of Scandinavian companies in the Chinese market. In this thesis, a conceptual framework is developed on the basis of two overarching themes and five main theories. This conceptual framework is reflected throughout the qualitative and quantitative methodologies as well as the analysis of our findings in chapter 5. This means that our multiple case study and quantitative study are also developed according to our framework. The aim of this thesis is to investigate how different factors influence entry mode decisions and expansion strategies of Scandinavian MNEs in the Chinese market. Therefore, our conceptual framework includes both firm-specific and country-specific factors, which are covered by the qualitative and the quantitative part. The two overarching themes of this thesis are **internal and external perspectives** on entry mode decisions and expansion strategies in China. The factors are also covered by five selected main entry mode and expansion theories; **the Eclectic Paradigm, the Resource-Based View**, **Transaction Cost Theory, Institutional Theory and the Evolutionary Process of Global Market Expansion.**

We are aware of the fact that there are other factors which may also influence entry mode and expansion strategies in China. However, our conceptual framework has been limited to

include factors which are both covered by the selected theories and can be operationalised in our methodology. Figure 5 shows the conceptual framework which we have developed and used throughout this thesis. Each investigated factor has been placed in connection to its respective theory, methodological approach and internal/external perspective. As illustrated in figure 5, some factors are covered by both the quantitative and qualitative methodological approaches, which is shown by the use of two different colours.

Figure 5 - Conceptual Framework: Entry Mode and Expansion Factors of MNEs

3. Methodology

The following chapter contains a description of the research methodology used in this thesis. The motivation for our chosen research approach is provided and the collection of empirical data is described. The structure of the scientific perspective in this chapter follows the "*Research Onion*", developed by Saunders et al. (2012). Moreover, this chapter is divided into a qualitative and a quantitative part in order to distinguish between our two methodological approaches.

3.1 Purpose and Research Design

The purpose of our study is to provide Scandinavian MNEs and other stakeholders with a deeper understanding of how different factors influence the entry mode and expansion strategy in the Chinese market. By creating awareness of the influence of internal and external factors, our study aims to fill a research gap which could help Scandinavian MNEs in their expansion in the Chinese market. When considering the purpose of this thesis, the most appropriate data collection method to apply is a combination of a qualitative and a quantitative approach. The idea is that the quantitative part is focused on factors which influence entry mode decisions of Scandinavian MNEs in China. This is done by developing and testing a logistic regression model. It contains variables selected based on the four classical entry mode theories as well as an expansion theory. The qualitative part is mainly focused on the expansion strategies of MNEs, which have been present in China for at least a decade. Data is collected through a multiple case study, where interviews are conducted with company representatives from IKEA, H&M and Grundfos. By using a combination of data collection methods, results are received from different perspectives. In this way, they complement each other when drawing final conclusions of this study.

3.2 Operationalisation

In order to answer our research question in the most appropriate way, the two data collection methods have different focuses - on factors which influence entry mode decisions and on factors which influence expansion strategies. In the following sections, our research question is translated into measurable factors.

3.2.1 Operationalisation of the Quantitative Part

The variables used in the quantitative model are shown in table 2. The dependent variable is binary, where the effect of various independent variables changes the likelihood of choosing either a JV or a WOS as the entry mode into China. In order to capture the influence of internal factors on entry mode decisions, the following firm-specific variables are included in the model: firm size, asset specificity and international experience. The influence of external factors is examined by including the following country-specific variables: political distance, cultural distance, economic distance and institutional distance. The included variables do not only mirror the selected overarching themes of our conceptual framework, but also the selected entry mode theories. First of all, Institutional Theory is mainly captured by measuring the effect of institutional distance, cultural distance and political distance. However, economic distance can also be seen as being covered by this theory as government policies influence these variables. Secondly, the Resource-Based View is mainly measured by the variable asset specificity as well as international experience and firm size. Transaction Cost Theory is captured by the same variables as Institutional Theory as well as by The Resource-Based View. Lastly, the Eclectic Paradigm is measured by international experience, firm size, asset specificity, economic distance and institutional distance as well as the control variables included in our models.

3.2.2 Operationalisation of the Qualitative Part

The six interview questions used in the multiple case study can be found in appendix J. The overall purpose of the questions is to investigate to what extent the interviewees' answers differ depending on factors such as timing of entry and expansion in the Chinese market. Also, industry influences as well as opportunities and challenges related to these factors are investigated. By asking the same questions to all interviewees, different viewpoints and experiences can be achieved. Introductory questions about the interviewees' professional background in the company are included to further understand what kind of perspective the interviewee is likely to have of the MNE.

Firstly, internal factors on entry mode decisions and expansion strategies, are mainly covered in questions two, four and six. The purpose is to capture the influence of factors such as firm-specific know-how, firm size, international experience and organisational

structure, which are unique to the MNE. The organisational structure is further examined in terms of decision making in various strategic moves. Question two applies to both internal and external factors as its purpose is to capture overall opportunities since entering and expanding in the Chinese market.

Secondly, external factors on entry mode decisions and expansion strategies, are covered in questions three and five. The purpose of question three is to capture the influence of external factors such as cultural distance, the Chinese labour market, legislation, regulations and the institutional environment of foreign MNEs in the market, defence of IPR as well as characteristics of the competitive environment. The external perspective is also captured in question five in regards to the degree of local adaptation of the concept or product offering needed in the Chinese market.

As explained earlier, the theories included in our conceptual framework are also reflected in the interview questions. Question three is related to Institutional Theory and the Theory of Cultural Distance. Question four is related to the Resource-Based View and Transaction Cost Theory. Aspects of the Eclectic Paradigm as well as localisation and globalisation strategies are covered by for instance questions three, four and five. The Evolutionary Process of Global Market Expansion covers most of the included interview questions.

3.3 Scientific Perspective

The following section explains the scientific perspective from which this research is conducted. The "*Research Onion*" (Saunders et al., 2012), shown in figure 6, is applied in order to describe choices of for example philosophies, approaches and procedures used in this research. The centre of the onion shows the data collection method, however further layers of the onion also need to be explained in order to understand and motivate this choice (Saunders et al., 2012).

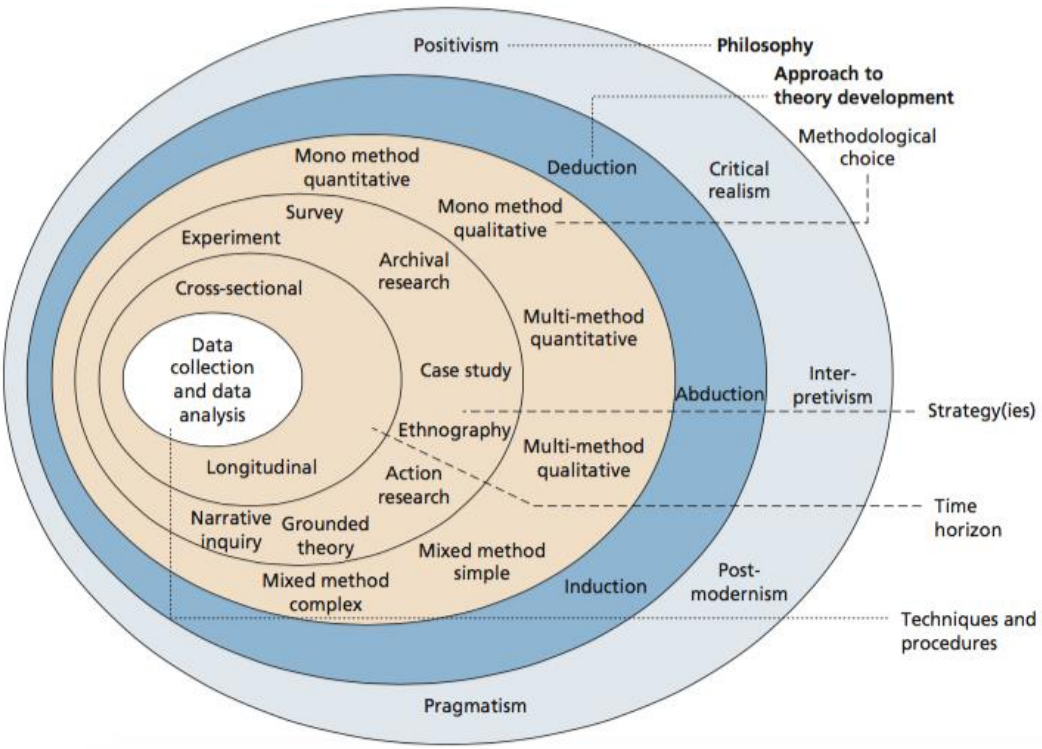

Figure 6 - The Research Onion (Saunders et al., 2015, p.124)

3.3.1 Research Philosophy

A research philosophy is characterised by the nature and development of knowledge when conducting a research. Saunders et al. (2012) discusses ontology and epistemology as two possibilities of regarding research philosophy. First of all, ontology relates to the nature of reality, which means that researchers make assumptions about how the world works (Saunders et al., 2012). If social entities are viewed as objective ones that exist externally and independently of social actors, the ontological approach is objectivism. If they are instead seen as being continually generated by social actors, and in a constant state of change, the approach is called constructivism. The main ontological approach of this research is constructionism. This is motivated by the fact that knowledge is seen as indeterminate, where our description of the social reality is presented in a specific version and not seen as being definite (Bryman & Bell, 2005). Each company included in our case study interviews has a unique perception and relationship to the business situation in the Chinese market. This subjective reality of each company can help us understand their motives and actions. However, our quantitative part has an approach which is related to

objectivism. Variables such as cultural distance or firm-specific know-how, can be seen as something that a company from a certain country possesses and it is not constantly re-created. Therefore, our research can be viewed through both lenses of constructionism and objectivism (Saunders et al., 2012).

Secondly, epistemology is a theory of knowledge which relates to what is seen as acceptable knowledge considering the orientation of research. The viewpoint, which states that natural science methods should be used when studying the social reality, is known as positivism. This philosophical approach aims to generate hypotheses which can be tested and used to explain a phenomenon, where scientific statements should be exclusively objective and value-free. Another viewpoint, known as interpretivism, focuses on the importance of understanding the subjective meaning of social behaviour and interpreting human actions (Bryman & Bell, 2005). In this research, a combination of positivism and interpretivism is applied. In regards to the multiple case study, human understanding is important. Therefore, the subjectivity of interpretivism is applied as the interviewees' reflections and thoughts are evaluated. In regards to the quantitative part, the philosophical viewpoint is instead positivism. The reason is that predictions are developed and tested in order to reach an understanding of factors which influence entry mode decisions. However, an interpretation of human behaviour is not taken into account in this part of the analysis. In addition, when using positivism as a research philosophy, the most common data collection technique is highly structured quantitative measurements (Saunders et al., 2012).

3.3.2. Research Approach

The research approach of a study depends on the logic, generalisability, use of data and conclusions in relation to theory. There are three main approaches, namely deduction, induction and abduction. This thesis has a deductive approach. The reason is that our research process starts with theory and then develops a framework based on existing theory. This is followed by an evaluation of theories through hypothesis testing and qualitative interviews. In this way, theory is verified or falsified. As for the quantitative part, the aim is to understand causal relationships between entry mode decisions and selected independent variables. These relationships are first explored in academic literature and then tested through a logistic regression model. A deductive approach is

commonly identified with quantitative research, however it may also be used in qualitative studies (Saunders et al., 2012). Since this thesis investigates the case of Scandinavian MNEs, it also aims at contributing to existing theory. This is based on the fact that other studies have not explored both entry mode and expansion strategies for firms with the same geographical background. In this way, our research also includes elements of abduction, where there typically is a lot of information in one situation but much less information in the investigated situation. In this sense, existing theory may be modified or new theory might be generated when it comes to applying it to firms with this particular geographical background. Although this thesis has a dominant approach, combining different research approaches is usually also considered advantageous (Saunders et al., 2012).

3.3.3 Research Strategies and Choices

A multi-strategy of research that combines qualitative and quantitative methods, also known as a mixed methods design, is used in this thesis. A comprehensive research allows for the combination of the two methods and provides researchers with the advantage of evaluating both dynamic features of qualitative research as well as static elements of quantitative research (Bryman & Bell, 2005). In this thesis, equal weight is given to the findings of the two methods, and the overall nature of our study is a combination of an explanatory and exploratory kind. First of all, the study of a causal relationship between variables in our quantitative part is explanatory in nature. Secondly, the qualitative part is done through exploratory research (Saunders et al., 2012). There are several advantages of using mixed methods and the following reasons motivate our choice of this research design. First of all, the initial conduction of a quantitative study helps us formulate interview questions for the subsequent qualitative study. Secondly, the level of generalisability and credibility can increase through the use of mixed methods, where the qualitative and quantitative parts may complement each other and link to one another in the creation of knowledge. Lastly, the application of more than one method, is useful to ascertain the validity and relevance of findings from each method. In turn, this leads to a larger degree of confidence in conclusions (Saunders et al., 2012).

The particular research design of our thesis differs between the quantitative and qualitative methods. First of all, an experiment strategy is conducted for the quantitative part. The

aim is to examine the likelihood of that change in an independent variable would cause change in a dependent variable. This strategy uses hypotheses to express our predictions of the relationship between variables. Secondly, a multiple case study strategy is used for the qualitative part in order to gain an understanding of expansion strategies and challenges experienced by MNEs in China. These aspects cannot be captured in the same way in an experiment strategy since these factors are not quantifiable to the same extent as entry mode decisions. The purpose of using a multiple case study is to explore existing theory and find out whether results may be replicated across different cases (Saunders et al., 2012). Using multiple cases instead of a single case is preferred since it generates more powerful outcomes and makes an analytical generalisation possible (Yin, 2013).

3.3.4 Time Horizons, Techniques and Procedures

The time horizon for this research is rather long as it involves studying particular phenomena over a long period of time. In regards to entry mode decisions, data is collected from the year in which the Scandinavian MNEs entered the Chinese market (between 2007 and 2017). Therefore, the quantitative study provides a representation of how different factors influenced this choice over a given period of time. In terms of the qualitative study, it captures strategies of MNEs since their initial entry to China, which was at least a decade ago. Based on the characteristics of our two studies, the time horizon is longitudinal in nature (Saunders et al., 2012).

The data collection technique for this research is secondary data for the quantitative model and a combination of primary and secondary data for the qualitative part. The global database Orbis, which contains data provided by Bureau Van Djik Electronic Publishing, was mainly used to collect data for our firm-specific variables. The database consists of data on the domestic and international ownership structure as well as balance sheet and income statement information of more than 130 million firms worldwide. Despite the large amount of information available in Orbis, the database has received several points of criticism. For instance, financial or real variables are sometimes missing, particularly when trying to access older data. This is also the case with European countries, although these often require firms to file most of the balance sheet information. Other issues are for example related to the quality of data in Orbis, which makes checking and cleaning procedures necessary (Kalemli-Ozcan et al., 2015). In regards to the collection of country-

specific data, the online databases of the World Bank and the United Nations, the Index of Economic Freedom as well as Hofstede's cultural indices, were used. The primary data for the qualitative part was collected through interviews, while the secondary data was collected through the use of online newspapers and company websites. By using semi-structured interviews, the interviewees had the opportunity to answer the questions in the way they interpreted them and the interview process was also flexible in terms of the order of questions asked. This structure creates a sense of freedom for the interviewees (Bryman & Bell, 2005) which is suitable for our qualitative study as it aims to capture differences in answers depending on the nature of the company's and interviewees' background and industry. The questions included in the interviews were open, which allowed the interviewees to respond in an extensive and descriptive way (Saunders et al., 2012). In some interviews, additional or follow-up questions were necessary to further investigate or discuss a particular topic. Notes were taken during each interview and all interviews were also audio-recorded after having asked each interviewee for permission. This was done to prevent any misinterpretations when analysing our findings.

3.4 Data Collection

The aim of our described research design is to provide us with an extensive understanding of entry mode decisions and expansion strategies, and thereby answer our research question by using these combined findings. The following section outlines the data collection procedures which were used in our two studies.

3.4.1 Sample - Quantitative Model

The sample consisted of Scandinavian MNEs which have entered China through a WOS or a JV between 2007 and 2017. Since we are interested in the equity ownership shares of JV and WOS, we looked for companies which held ownership in either of these forms. The definition of Scandinavia is the same one as used by Orbis, namely Sweden, Denmark and Norway (Orbis, 2017). The sample was restricted to include MNEs which have no less than 50 employees. This restriction was imposed because a search without the criterion showed that smaller companies were missing data for several variables. In addition, the sample exclusively included MNEs from the retail/wholesale and manufacturing industry. The Orbis industry classification "*NACE Rev.2 main sections*" was used to filter companies according to these two industries. The motive behind imposing this restriction was for the

sample to be in line with the selected case companies. These are active in the retail/wholesale sector (IKEA, H&M) as well as in the manufacturing industry (Grundfos). In total, our sample selection included 117 companies. In order to check for ownership restrictions that would limit entry mode choices in the selected industries of our sample, research was done in connection to the *Catalogue for the Guidance of Foreign Investment Industries*. This revealed that advanced manufacturing was encouraged by the Chinese government while some sub-sectors in traditional manufacturing were not supported. No restrictions related to the retail/wholesale sector were found (Faegre & Benson, 2008). Potential limitations of our quantitative sample are addressed in chapters 3.5 and 7.

3.4.2 Sample - Interviews

The overall aim of the interviews was to receive viewpoints and experiences from managers who have worked with expansion strategies in the Chinese market. Four interviews were conducted with managers from various departments and backgrounds at IKEA, H&M and Grundfos. These companies were chosen based on the fact that they are MNEs in Scandinavia. Their presence in various global markets and their ability to coordinate activities in different ways, define them as multinational enterprises (OECD, 2008). In addition, they all have at least a decade of experience from operating in the Chinese market. The interviewees were chosen based on their extensive experience in the Chinese market as well as in the companies. At the time of the interviews, our interviewees had been employed at their respective companies between four and fifteen years. Their role in the firm was important to us as well. It was either closely connected to expansion or to legal matters, which allowed us to gain insights from different angles. In addition, one written interview was conducted with the Global Law office in China (see appendix K). The purpose of this interview was to understand the legal and institutional in the Chinese market. The interview questions for the Global Law Office were different from the case company questions, since they needed to be tailored to their specific purpose. The questions were emailed to all interviewees one week prior to each interview. This allowed for the interviewees to prepare themselves and therefore make the interviews more efficient. All company interviews were performed via Skype since all interviewees were situated abroad. After having conducted interviews, these were analysed in accordance with our conceptual framework. Information about the five interviews are shown in table 1.

Name	Corporate Function	Date of interview	Type of interview
Charlotta Bengtsson	Legal Counsel, IKEA	2017-02-22	Skype
Simon Maynard	VP Retail Property & Expansion, IKEA	2017-02-24	Skype
Peter Kiaer	Sales Director Residential Building Services, Grundfos China	2017-03-07	Skype
Maria Eistrand	Real Estate Manager South East Asia (at the time of the interview), H&M	2017-02-28	Skype
Muriel He	Associate, Global Law Office, Shanghai, China	2017-03-01	E-mail

Table 1 - Interview Information

3.4.3 Model and Measurement – Quantitative Part

The following sub-chapter describes the model and measures applied in the quantitative part of this thesis. The most commonly used statistical method in entry mode studies is a logistic regression. When examining entry mode choice, a logit model is reasonable since the variable is easily codified as a dichotomous one (Canabal & White, 2008). Another model that has been commonly used is a probit model, which in practice results in the same quantitative findings as a logit model. The choice between these models is mostly arbitrary, however, the logit model is advantageous in the sense that results are easier to interpret in regards to how odds change with variations in an independent variable. In a probit model, changes in odds require some further calculations (Bowen & Wiersema, 2004). Therefore, a logit model was applied in this thesis.

As shown in table 2, data was collected from various sources. Data was later transferred into numerical codes in Excel. The statistical analysis software package, Stata, was used to run our regression models. To ensure a high quality of our models, several statistical tests were performed. Chapter 4 presents descriptive statistical data of the variables followed by findings generated by the model.

3.4.4 Variables

The variables included in our study follow the themes of the conceptual framework, and they are divided into internal and external ones. In the following section, these variables are introduced and motivated. A hypothesis is formulated for each independent variable and a summary of our expectations can be found in table 9 in chapter 4.

Dependent Variable

Entry Mode. Our dependent variable is a categorical and dichotomous variable which classifies the choice between the entry modes JV and WOS. The variable takes the value 0 if the entry mode is a JV, and 1 if the entry mode is a WOS (as indicated by Zephyr, Orbis or other sources). A dependent variable that categorises the choice between shared and full ownership is the most commonly used dependent variable in entry mode studies (Canabal & White, 2008). Other studies have commonly used equity levels (Canabal & White, 2008) by distinguishing between for example equity and non-equity modes of entry (Brouthers & Nakos, 2004). In terms of data collection, an initial issue was discovered since we were only able to obtain the most recent ownership share in Orbis. This means that a company could have entered with a lower ownership share before 2007 and could have increased this share over time. This could create a bias in terms of an over-representation of WOS in the sample. In order to overcome this issue, all companies with subsidiaries in China between 2007 and 2017, were cross-checked in the Zephyr database (Zephyr, 2017), which contains data of mergers and acquisition deals provided by Bureau Van Djik. Zephyr provided us with the year of establishment of the JV or WOS in China. However, if this information was not available in Zephyr, the information was extracted manually from different sources such as company websites, press releases or online newspaper articles. Observations with a different ownership share than the latest one provided by Orbis, were then corrected in our sample data.

Independent Variables - Internal variables

International experience. The most commonly used independent variable in entry mode research is the international experience of MNEs (Canabal & White, 2008). The measure of international experience in our thesis, was based on a company's number of foreign subsidiaries in relation to its total number of subsidiaries. This measurement

allowed us to explore the degree of internationalisation in regards to establishing connections and networks in foreign markets. Measurements used in other studies have for instance been the ratio of export sales to total sales, degree of investment activity measured by the number of FDIs (Delios & Beamish, 1999), the share of total sales originating from foreign operations (Agarwal & Ramaswami, 1992) or the number of foreign entries (Anderson & Gatignon, 1988). Some previous studies have found a positive relationship between international experience and the choice of higher ownership positions in entry mode strategies (Delios & Beamish, 1999; Anderson & Gatignon, 1988). As firms broaden their international experience, they tend to choose WOS as entry mode which seems to be related to the process of "*learning by doing*" (Anderson & Gatignon, 1988, p. 331). However, other studies have not found significant results when it comes to the relationship between international experience and entry mode choice (Blomstermo & Sharma, 2006; Kogut & Singh, 1988; Brouthers, 2002). For example, Blomstermo and Sharma (2006) measured the variable in terms of previous experience in international markets. They found no support that greater foreign market experience would lead companies to choose a higher control mode of entry. Wang and Schaan (2008) suggest that particularly high costs are associated with knowledge transfers to foreign subsidiaries when there is a difference in culture between the home and the host country. In this case, forming a JV with a local partner seems preferable since previous knowledge and experience can be complemented and shared between partners in the JV. Previous research shows contradictory findings, however we predict that a larger degree of international experience may lead to a lower level of ownership structure in China, meaning that a JV would be preferred over a WOS (Hypothesis 1).

Firm size. As studied by many scholars, we also examined the influence of the resource-based variable firm size, on entry mode choice (Canabal & White, 2008). According to Brouthers and Nakos (2004), research has found that larger firms generally tend to have a greater amount of resources, and prefer to enter through higher control entry modes. Moreover, the size of a firm tends to indicate a company's ability of meeting resource requirements (Buckley & Casson, 1998). Several findings related to large firms' entry mode decisions, have shown that firm size and equity-based entry modes are positively associated (Agarwal & Ramaswami, 1992; Wulff, 2015a). However, other scholars have found no significant relationship between firm size and entry mode choice (Brouthers &

Nakos, 2002; Wang & Schaan, 2008). Wulff (2015b) reviewed empirical entry mode research and found that, although firm size is the most used control variable in entry mode studies, the existence of the same proportion of positive and insignificant results could not be rejected (Wulff, 2015b). Previous studies have measured firm size in terms of number of employees (Brouthers & Nakos, 2004; Wulff, 2015b), or by total volume of sales (Agarwal & Ramaswami, 1992). We expect a high level of correlation between the above mentioned variables and decided to use the number of employees at the year of entry in China, as a measure of firm size. Previous findings regarding the influence of firm size on entry mode choice provides us with the expectation of a positive relationship between firm size and the level of ownership in China. In other words, we expect WOS to be selected over JV as the firm size increases (Hypothesis 2).

Asset specificity. As outlined in the previous chapter, the transaction cost variable asset specificity, has commonly been measured in terms of R&D intensity (Brouthers & Hennart, 2007). This thesis applied the same measure in terms of R&D expenses in relation to total sales. Asset specificity is one of the most tested determinants when taking on a Transaction Cost Theory perspective in entry mode research (Wulff, 2016). A firm with a high degree of asset specificity is more likely to choose an entry mode with a higher level of control like a WOS. This is due to the fact that assets may be protected from potentially opportunistic acts of a partner (Brouthers & Hennart, 2007). Even though a great part of studies did not find a significant relationship of asset specificity in explaining entry mode choice (Brouthers & Hennart, 2007; Wulff, 2016; Brouthers, 2002), some studies found support for asset specificity as a significant variable in choosing between a WOS and a JV (Brouthers et al., 2003; Gatignon & Anderson, 1988). Several studies found a significant negative connection, meaning that a higher degree of asset specificity increase the probability for MNEs to enter with a partner (Palenzuela & Bobillo, 1999; Delios & Beamish, 1999). Both relationships show that findings regarding the relation between asset specificity and entry modes are not unambiguous. When following Transaction Cost theory, outlined in the literature review, we formulate the hypothesis that firms with a greater level of asset specificity prefer to enter through a WOS rather than through a JV (Hypothesis 3). This is related to the preference of keeping control over foreign operations in order to protect assets.

Independent variables - External variables

Cultural distance. Out of the country-specific variables used in our model, cultural distance is the most commonly used variable in research on entry mode choice (Canabal & White, 2008). As outlined in the literature review, many scholars have examined the effect of cultural distance on the choice of entry modes (e.g. Agarwal, 1994; Kogut & Singh, 1988, Luo, 2001). In our study, cultural distance is measured by means of the Kogut and Singh (1988) index, which is calculated on the basis of the country scores developed by Hofstede (1980). We decided to only include Hofstede's four original dimensions in our measure. Since, changes in indices cannot be traced back in time, the same scores are used independently of the year of entry. This is a valid approach according to Hofstede (2010). The reason behind the stability of scores over time, is that changes in culture often occur on a global or continent-wide scale. In order to obtain the cultural distance, the following formula, developed by Kogut and Singh (1988), is used:

$$CD_j = \sum_{i=1}^{4} = \{(I_{ij} - I_{ic})^2 / V_i\}/4$$

CD_j equals the cultural distance between the host country China c, and the home countries j, which are of Scandinavian descent. The different cultural dimensions are represented by i. I_{ic} is China's value on a particular dimension and I_{ij} is the same value for a Scandinavian country. V_i is the variance of the cultural dimension i. By dividing the formula by four, the arithmetical average is obtained. Overall, a higher value signifies a higher cultural distance between the home and the host country China (Kogut & Singh, 1988).

Previous studies which researched connections between cultural distance and entry modes came to different results. Some scholars came to the result that a high distance in culture increases the costs of collaboration, which can exceed the costs embedded in direct control (Brouthers & Brouthers, 2001). Findings show that firms choose higher equity control modes as cultural distance increases (Erramilli et al., 1997). Other scholars claim that a high cultural distance leads multinational firms to choose collaborative entry modes like JVs (Shenkar, 2001; Hennart & Larimo, 1998). For instance, studies by Kogut and Singh (1988) as well as by Hennart and Larimo (1998), found that high cultural distance increases the probability that MNEs enter as a JV. Anderson and Gatignon (1988) suggest

that a common argument is that a lower degree of control will be preferred when the socio-cultural distance between home and host countries is larger. Nevertheless, their results showed that socio-cultural distance generally does not seem to have a large influence on entry mode choice (Anderson & Gatignon, 1988). Other studies also did not find a significant relationship between cultural distance and entry mode choice (Tihanyi et al., 2005). We aim at testing the hypotheses that a greater cultural distance between the home and host country increases the likelihood that MNEs will choose a JV over a WOS when entering China (Hypothesis 4).

Political distance. In order to account for some of the external uncertainty multinational corporations face when entering a new market, a variable measuring political distance in terms of risk, was included. According to Transaction Cost Theory, uncertainty is one of the three dimensions which characterizes transactions (Williamson, 1985). Hence, we aim to partly cover this dimension by measuring the effect of political distance. While there are different measures of country and political risk, as for instance related to corruption, political or government stability (World Bank, 2017), we decided to focus on the political risk index provided by the World Bank (2017) which is based on data from the Political Risk Services (PRS). The index consists of six overarching dimensions, namely voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption (World Bank, 2017). The political distance variable is obtained by using the structure of the cultural distance formula by Kogut and Singh (1988), as shown below. However, the political risk scores of the six different dimensions are incorporated instead of cultural scores, in order to generate one political risk score for each of the home countries in the years from 2007 to 2017. This is done to measure the distance in political risk between both countries.

$$PD_j = \sum_{i=1}^{6} = \{(I_{ij} - I_{ic})^2 / V_i\}/6$$

In this formula, PD_j is the political distance between China and home country j. I_{ij} is in this regard the *ith* political risk dimension of the *jth* country. Respectively, I_{ic} is the corresponding *ith* dimension for China. V_i is the variance of the specific dimension i. By dividing the whole formula by six, we account for the six different dimensions. A lower risk score signifies a higher level of political risk and greater political distance between the

home and the host country. By measuring environmental uncertainty through political risk (Brouthers et al., 2002), the direct effect of one type of uncertainty can be tested in our quantitative study. According to Transaction Cost Theory, it is expected that firms avoid ownership when entering a volatile, high-risk market. This is the case because with a higher commitment of resources it becomes more difficult to shift operations if external changes occur. By choosing a low-control entry mode, flexibility can be kept (Anderson & Gatignon, 1986; Williamson, 1979). In contrast, other studies argue that a volatile environment leads firms to choose higher control entry modes in order to solve conflicts and react appropriately to uncertainties (Killing, 1982; Bivens and Lovell, 1966). However, this makes it difficult for firms to react fast to external changes and commits them to a market which may evolve as not beneficial (Root, 1983). In line with transaction cost theorists, we expect that a larger political distance between the home and the host country, increases the probability that firms enter through a JV, instead of a WOS (Hypothesis 5).

Economic distance. In order to measure the economic distance between the home and the host country, the real gross domestic product (GDP) per capita (in US dollars), at the year of entry can be used. This measure has been applied the most to measure economic distance and the development between different economies (Hutzschenreuter et al., 2014). According to Tsang & Yip (2007), economic distance between China and more developed countries can be calculated by subtracting the real GDP per capita of China (y_c) from the GDP per capita of the more developed countries (y,in our case Denmark, Sweden and Norway). This results in the formula: Economic distance = $ln\,(y) - ln\,(y_c)$. Data for the calculation of this variable was retrieved from The United Nations Conference on Trade and Development (UNCTAD, 2017). The natural logarithm of the variable was used to get a more precise measurement because of the small differences in GDP per capita. This is done as a standard procedure in econometrics (Tsang & Yip, 2007). The effect between economic distance and the ownership level of a company's entry mode has been investigated by different scholars in various ways. Tsang & Yip (2007) investigated the way entry mode choice influences the relationship between FDI hazard rates and economic distance. Johnson & Tellis (2008) examined the connection between entry mode success and economic distance, and found that a lower economic distance increases the entry mode success of the company. In accordance with the effects of other external variables, such as political and cultural distance, we formulate the hypothesis that the larger the

economic distance between two countries, the higher the likelihood that MNEs enter the market through a JV over a WOS (Hypothesis 6).

Institutional distance. Differences in the institutional environment between China and the home countries, were measured using an institutional distance index at the year of entry. This construct was introduced by Kostova (1999), as the difference in institutional characteristics of two countries. We implemented this measure to capture the effect of institutional distance on entry mode choice. The variable was obtained from the Index of Economic Freedom which consists of 12 different dimensions, namely business freedom, property rights, investment freedom, government integrity, judicial effectiveness, tax burden, government spending, fiscal health, labour freedom, monetary freedom, trade freedom and financial freedom (Index of Economic Freedom, 2017). For the calculation of institutional distance, the overall score of all these dimensions was used for the respective years (2007 - 2017). In order to calculate the institutional distance, the absolute differences between the overall score of China and the scores of Sweden, Denmark and Norway were obtained. This was done for the year of entry of all companies. According to Xu and Shenkar (2002) this measure complements the cultural distance index and together, they provide a more cohesive assessment of the host country environment. Moreover, this factor can be derived from Institutional Theory. Several studies (Xu & Shenkar, 2002; Kostova, 1999) came to the result that a higher institutional distance makes companies choose to enter with a partner in order to minimise risk associated with institutions. In a JV, the partner can transfer knowledge and local practices which supports foreign MNEs in dealing with an institutionally distant environment. This leads to the hypothesis, that with an increasing institutional distance between the host country China and the Scandinavian home countries, the probability increases that companies will choose to enter through a JV instead of a WOS (Hypothesis 7).

Control variables. Several control variables are introduced in order to control for other potentially relevant variables which may have an effect on the relationship that we want to investigate. This is important in order to ensure the generalisability of results (Becker, 2005). If relevant control variables are excluded, it is possible that incorrect results are obtained (Bernerth & Aguinis, 2016). The three control variables included in our study are considered to be related to the theories presented in chapter 2. To control for the influence

of industry differences, a dummy variable, which distinguishes between firms belonging to the retail/wholesale industry and the manufacturing industry, is included The industry variable takes the value 0 if the MNE is part of the retail/wholesale sector and the value 1 if it is part of the manufacturing sector. In this way, we follow existing literature in which industry differences are controlled for by making use of a dummy variable (Kogut & Singh, 1988; Brouthers, 2002; Brouthers et al., 2003). The industry variable is also one of the most used control variables in entry mode research (Wulff, 2015b). In addition, the categorical variable country was included to control for home country differences between MNEs from Sweden (1), Denmark (2) and Norway (3). In former studies, scholars also controlled for differences between home countries (Wulff, 2016; Brouthers et al., 2008). Our third control variable is included to control for differences in the year of entry or re-entry to China. This control variable has been also used by other scholars (e.g. Wulff, 2015b). As a robustness check, dummy variables for each country as well as year of entry were included in one of our models.

Table 2 provides an overview of the internal, external and control variables included in our model.

Variable	Name in Stata	Variable Type	Theory	Measure	Data Source
Entry Mode	*entry_mode*	Dependent (Dummy)	All	0 = JV, 1 = WOS	Zephyr, Orbis, Articles, Company websites
International Experience	*subratio*	Independent	TCT, RBV, OLI	Parent foreign subsidiary ratio	Orbis
Firm Size	*employees_entry*	Independent	RBV, OLI	Employees of parent company worldwide	Orbis, Annual Reports, Company websites
Asset Specificity	*asset_specificity_entry*	Independent	TCT, RBV, OLI	R&D intensity (parent company)	Orbis
Industry	*industry*	Control (Dummy)	All	0 =Retail/Wholesale 1 = Manufacturing	Orbis
Home country*	*country*	Control	All	1 = SE, 2 = DK, 3 = NO	Orbis
Year of entry*	*year_entry*	Control	All	Years 2007 – 2017	Orbis, Newspaper Articles, Company websites
Cultural Distance	*culturaldist*	Independent	TCT, IT Cultural Distance	Kogut and Singh Index (4 dimensions)	Hofstede
Political Distance	*politicaldist_entry*	Independent	TCT, IT	Political Risk Index (6 dimensions)	World Bank, PRS
Economic Distance	*economicdist_entry*	Independent	TCT, IT, OLI	Real GDP per capita	UNCTAD
Institutional Distance	*institutionaldist_entry*	Independent	TCT, IT, OLI	Index of Economic Freedom (12 dimensions)	Index of Economic Freedom

* In model 7 these variables are dummy variables

Table 2 - Overview of Variables and their Characteristics

3.5 Source Critical Consideration - Quantitative Part

First of all, validity relates to the extent which a measure really captures an intended concept. Secondly, reliability concerns the conformity and consistency of measures. We aim to reach a high level of validity and reliability by applying similar variables and databases as numerous previous scholars. In addition, we aim to achieve a high level of validity by clearly outlining the procedures of this study so that it can be replicated by other researchers, who for instance use different database sources (Bryman & Bell, 2005). An advantage of using secondary data is that it is usually of high quality and the information available often contains a high level of representativeness. However, key variables are sometimes not available in the main databases used (Bryman & Bell, 2005). Therefore, they need to be manually cross-checked and obtained from other ones. This was the case for some of our variables obtained from Orbis, which made the process very time-consuming. In regards to the variable asset specificity, it was not applicable for firms in our sample which operate in the retail industry, since these firms generally do not have large R&D expenses. Consequently, the model had to be adapted to exclude this part of the sample when including the asset specificity variable. This influences the consistency and representativeness of our conclusions in this study. In terms of the choice of industries included in our sample, we have aimed to include sectors without ownership restrictions since this would limit MNEs in their entry mode choice. Yet, there may be some restrictions on foreign ownership in certain sub-categories of products which could have changed during sample period. In order to minimise this risk, we cross-checked industry information of companies which entered China through a JV.

In regards to our model, the choice was a binary logit model between the entry modes JV and WOS. Nevertheless, an MNE is likely to consider more than two choices when making an entry mode decision (Bowen & Wiersema, 2004). Therefore, a multinomial logit model may have been more appropriate in order to include more than two entry mode choices in our study. However, due to the limited time frame and scope of this thesis as well as the frequent use and appropriateness of a binary logit model for our purpose, we decided to adopt the latter. Lastly, our sample was restricted to include firms with no more than 50 employees, which could lead to an overrepresentation towards choosing entry modes with higher equity control. The reason is that research has found that larger firms are more

likely to have more resources, and tend to be able to engage in entry modes with higher control compared to smaller firms (Brouthers & Nakos, 2004).

3.6 Source Critical Consideration - Qualitative Part

When evaluating the quality of a study, it is important to take reliability and validity criteria into account. Nevertheless, the relevance of measuring these criteria for qualitative studies has been discussed since they are believed to be more suitable for quantitative studies. Therefore, the following sub-criteria have been suggested to evaluate qualitative studies; credibility, transferability, dependability and confirmability (Bryman & Bell, 2005). In regards to this thesis, we are aware that only including MNEs from Sweden and Denmark in our interviews could be misleading in regards to the representativeness of Norwegian MNEs, which are also part of Scandinavian firms in the quantitative sample. Since interviews were only possible with managers from two out of the three Scandinavian countries, we are aware that the generalisability of this study of Scandinavian MNEs might be limited by our choice of case companies. However, the quantitative part covers firms from all three countries which makes the entry mode choice part of this thesis applicable to firms from all Scandinavian countries. Also, firms of Scandinavian countries exert similarities in terms of business culture and have been studied together in former papers (Carlsson et al., 2005; Selnes et al, 1996). The common political, cultural and societal environment of Sweden, Norway and Denmark has brought about the term "*Scandinavian management*". The management style is associated with project management, an encouragement of flat hierarchies and a high level of staff involvement and dialogue (May et al., 2007). Based on these findings, we expect a high level of similarities in terms of challenges encountered in China as well as experiences in influencing factors on entry mode expansion strategies. In addition, differences between the three countries are not the focus of our analysis. Overall, the exclusion of Norwegian companies is not seen as a major limitation in this thesis.

Credibility. Credibility relates to the way in which the researcher describes the social reality and to what extent its credibility is acceptable to other people (Bryman & Bell, 2005). In this thesis, the technique *respondent validation* was used to ensure that we had understood the social reality in the right way. This process involved sending our empirical

results to the interviewees in order to confirm that we had interpreted their views and experiences correctly.

Transferability. Transferability concerns the extent to which the results of a particular study can be applied and transferred to a different context, time frame or environment. Qualitative studies tend to investigate a unique context and social reality (Bryman & Bell, 2005). The interviews of this study involved managers from a small group of Scandinavian MNEs and we are aware that the transferability of the qualitative part of this study is limited.

Dependability. In order to assess the reliability of a study, the research process and all of its phases have to be completely reported and available. Thereafter, the quality of a study can be examined by peers in order to achieve a critical view on the process (Bryman & Bell, 2005). In this thesis, our supervisor and student partners provided us with critical viewpoints and feedback on selected research areas.

Confirmability. It is important that researchers realise that they are unable to reach complete objectivity since qualitative studies of social context always include some elements of subjectivity (Bryman & Bell, 2005). In this regard, our aim is to reach the highest possible level of objectivity when interpreting our qualitative findings. Respondent validation is also used to receive a different viewpoint on our interpretations.

3.7 Research Ethical Reflection

When developing a research design, it is important to consider research ethics (Saunders et al., 2012). In order to ensure that this study is conducted in an ethical way, all interviewees were informed about the purpose of our research and they were asked for approval in regards to having the interviews recorded. As previously mentioned, respondent validation was used to ensure that our interpretations of the interviewees' answers were correct and representative of their respective firm. Lastly, ethical concerns related to the anonymity of interviewees and confidentiality of data (Saunders et al., 2012) have been taken into consideration before making this thesis available to anyone apart from ourselves.

4. Empirical Data

This chapter presents our empirical findings from the quantitative part. In the first section, results as well as descriptive statistics are presented in order to show the distribution and correlation of variables in the model. Results from statistical tests, that were performed to assess the performance of our model, are also presented. In the second section, empirical data from our interview with the Global Law Office is presented. The purpose of this information is to explore how the regulatory and institutional environment in China influences Scandinavian MNEs' entry mode and expansion strategies. Next, the three case companies and their internationalisation strategy in China are presented. This data was collected from secondary sources such as academic articles, newspapers and company websites. The qualitative findings from the interviews are presented and analysed in chapter 5.

4.1 Findings from the Quantitative Part

In this section, the findings of our logistic regression are presented. The purpose is to determine which effect independent variables have on MNEs entry mode choice between a JV and a WOS. This is done for our sample of Scandinavian companies which have entered China. By including the different variables outlined in chapter 3.4.4, the equation of our binary logistic regression is obtained as the following:

$$\begin{aligned} entrymode = {} & \beta_0 + \beta_1\, year\_entry_i + \beta_2\, country_i + \varphi_3\, industry_i + \beta_4\, subratio_i \\ & + \beta_5\, employees\_entry_i + \beta_6\, culturaldist_i + \beta_7\, economicdist\_entry_i \\ & + \beta_8\, institutionaldist\_entry_i + \beta_9\, politicaldist\_entry_i \\ & + \beta_{10}\, asset\_specificity\_entry_i \end{aligned}$$

This equation includes all variables however, it does not reflect all of our models. The variable *entrymode* represents the binary dependent variable and therefore the entry mode choice. β_0 reflects our constant and β_i represents the independent variables (at the year of entry). This includes the control variables *year_entry* and *country* (included as dummy variables in model 7), as well as the dummy variable *industry* which is represented

by φ_i. The variables which we are interested in further exploring, in terms of their significance and relationships, are the following:
$subratio, employees\_entry, culturaldist, economicdist\_entry, institutionaldist\_entry, politicaldist\_entry$ and $asset\_specificity\_entry$.
In order to control for year-specific and country-specific effects, a model including dummy variables for each year and home country, known as model 7 (see appendix G), was also tested. As discussed before, the use of a binary logistic model is in line with other studies. These also aimed at estimating the impact of different dependent variables on the probability of choosing between two different entry modes (Gatignon & Anderson, 1988; Kogut & Singh, 1988; Agarwal & Ramaswami, 1992).

After the presentation of descriptive statistics, seven different models are outlined in order to account for differences between models, check for robustness and identify how possible changes affect our coefficients. Thereafter, two primary models are selected for further analysis. These include models which contain all variables for the respective samples. Overall, the relationships found in our models are of primary interest, while the statistical significance itself becomes rather secondary. This means that we do not want to exclude relationships of interest solely because of their statistical insignificance in a specific model.

4.1.1 Descriptive Statistics

The full sample consists of 117 unique companies from Sweden, Denmark and Norway which entered or re-entered China through a JV or WOS between 2007 and 2017. Companies which had made several entries to China throughout this time period and therefore occurred more than once in our sample, were only included once. All companies included in this sample had at least 50 employees at the time of entry and operate in the retail/wholesale sector or manufacturing industry. The home country and entry mode distribution of our data is shown in table 3. The majority of companies entered China through a WOS (79%), showing that the entry mode commitment in our sample is very strong when deciding between a WOS and a JV. When looking at the distribution among companies from the same country, WOS is also shown to be the preferred entry mode across the three home countries. Moreover, the distribution shows that most companies in our sample are from Sweden and relatively few companies are from Norway.

Entry Mode			
Country	**JV**	**WOS**	**Total**
Sweden	17	45	62
Denmark	6	41	47
Norway	2	6	8
Total	25	92	117

Table 3 - Home Countries and Entry Mode Choices

Table 4 illustrates the industry distribution of companies covered by our sample. As shown in the table, the majority of companies are from the manufacturing industry. This part of the sample was used to estimate two models containing the variable asset specificity. The reason is that companies belonging to the retail/wholesale industry are rather unlikely to have any recorded R&D expenses. Manufacturing companies which did not have any recorded R&D data for the year of entry to China, were removed from the overall sample in two models. This resulted in 53 unique companies for the estimation measuring asset specificity.

Industry	**Frequency**	**Percent**
Retail/Wholesale	17	14.53
Manufacturing	100	85.47
Total	117	100

Table 4 - Industry Distribution

As reported in table 5, the average number of total employees at the year of entry into China is 6753. Since our sample had a restriction of including only firms with at least 50 employees but no upper restriction, the distribution is right-skewed due to very large companies included in the sample, with some of them having a total number of more than 40 000 employees. This is illustrated by the percentile values in the table, where the mean value exceeds the 75th percentile. As also shown in table 5, the average company in our sample has a total of 37 subsidiaries of which 30 are foreign.

Percentile →	**25th**	**50th**	**75th**	**Mean**
Total employees at the year of entry	171	541	3488	6753.068
Foreign Subsidiaries	5	14	41	29.84615
Total Subsidiaries	6	18	49	37.10256

Table 5 - Distribution of the Number of Employees

Table 6 shows the mean, standard deviation as well as the Pearson correlation table of all dependent and independent variables included in the full model, where asset specificity was excluded. The Pearson correlation table which includes asset specificity, can be found in appendix I. Table 6 includes the correlation values as well as the p-values for each coefficient (the latter are in brackets). The asterisk (*) signifies that a correlation coefficient is significant at a significance level of 0.05. The rather high mean value of the dependent variable entry mode (79%), once again indicates a strong entry mode commitment towards choosing WOS in China for companies in our sample. In addition, the relatively high mean of the variable subsidiary ratio (83 %), illustrates the high level of internationalisation of firms in the sample. Before analysing the logistic regression results, it is important to check for multicollinearity between the independent variables. This is done by examining the Pearson correlation table. According to a guide suggested by Evans (1996), the range for *strong* correlation is for values between 0.6 and 0.79, and the correlation table shows that four cases of bivariate correlation are within this range. One of the cases concerns the control variables, country, which is correlated with institutional distance. Two cases concern the control variable year of entry, which is correlated with economic distance and political distance respectively. The last case concerns the variables economic distance and political distance. Even though the correlation values of these variables are within the range of strong correlation, they are still below the 0.8 value, which indicates *very strong* correlation (Evans, 1996). Hence, no variables will be excluded from the model, however we will take the relatively strong correlation of some variables into consideration when testing our models and analysing the findings.

	Variables	Mean	S.D.	1	2	3	4	5	6	7	8	9	10
1	country	1.538462	0.6233732	1									
2	year_entry	2011.188	2.716272	0.0517 (0.5799)	1								
3	subratio	0.8346155	0.1812365	0.0442 (0.6357)	-0.2351* (0.0107)	1							
4	employees_ year	6753.068	17142.75	-0.0717 (0.4421)	0.1445 (0.1200)	-0.0057 (0.9517)	1						
5	industry	0.8547009	0.3539179	0.0060 (0.9487)	0.0376 (0.6871)	0.0524 (0.5747)	0.0516 (0.5807)	1					
6	entrymode	0.7863248	0.4116631	0.1163 (0.2118)	-0.2490* (0.0068)	0.0321 (0.7312)	-0.4452* (0.0000)	-0.0966 (0.3002)	1				
7	cultural dist	5.574004	0.0550373	-0.2586* (0.0049)	-0.0897 (0.3360)	0.2322* (0.0118)	-0.1014 (0.2767)	-0.1369 (0.1412)	0.0931 (0.3181)	1			
8	economic dist	2.745602	0.2106886	0.3571* (0.0001)	-0.7918* (0.0000)	0.1459 (0.1164)	-0.1465 (0.1150)	-0.0490 (0.5995)	0.1984* (0.0320)	-0.2081* (0.0244)	1		
9	institutional dist	20.87863	3.902957	0.7031* (0.0000)	0.0329 (0.7247)	0.1805 (0.0515)	-0.0745 (0.4245)	-0.0316 (0.7352)	0.1168 (0.2099)	0.4128* (0.0000)	0.0953 (0.3067)	1	
10	political dist	3.975265	0.6851423	-0.1399 (0.1324)	0.7082 * (0.0000)	-0.2552* (0.0055)	0.2458 * (0.0076)	0.1059 (0.2560)	-0.2828* (0.0020)	-0.2555* (0.0054)	-0.6322* (0.0000)	-0.0840 (0.3677)	1

Table 6 - Pearson Correlation Table including mean and standard deviation values

4.1.2 Empirical Results

Following the discussion on descriptive statistics, this section presents the results of our logistic regression. Seven different models were tested using the Stata. The first model (model 1) is the base model which only includes the control variables year of entry, country and industry. Model 2 includes the control variables as well as the internal variables firm size and international experience. In model 3 the external variables cultural distance, economic distance, institutional distance and political distance are included as well as the control variables. Moreover, model 4 includes all variables except for asset specificity. Model 1 to 4 are tested based on the entire sample size. In model 5 and 6, the sample contains mostly manufacturing companies (for some companies in the retail industry, R&D data was available). In these models, the variable asset specificity is added. Model 5 includes all internal variables as well as control variables. In model 6, all other variables are added to the model. To check for robustness, a seventh model, including all variables, is tested. In this model, dummy variables for each year of entry and host country are included in order to control for country-specific and time-specific effects. The outcomes of the different models are discussed based on table 7 and 8 and appendix A-G.

In table 7 and 8, the beta coefficients, standard errors of our independent variables as well as the p-values for model 4 and 6, are shown. These two models are our main focus in the analysis part in chapter 5. The reasons for choosing these two models are explained later in this chapter. The sign of the coefficients indicates the direction of the relationship and therefore, point out which independent variables increase or decrease the probability that a WOS or a JV is chosen as an entry mode. A positive sign shows that the likelihood of choosing to enter through a WOS increases when the value of a coefficient increases. A negative sign implies that it is more likely a JV will be chosen as an entry mode when the corresponding independent variable increases. The asterisks (*) in the table indicates if a coefficient is statistically significant at a significance level of 0.05 (when $p<0.05$). In the following sections, the results of our internal and external variables are discussed. A summary of results, excluding the control variables, can be found in table 9.

	Coef.	Std.Err	p>IzI
year_entry	-0.5069986	0.2510523	0.043*
country	2.290976	2.21284	0.301
industry	-0.700745	0.8999573	0.436
subratio	-0.783837	1.688696	0.643
employees_entry	-.0000879	0.0000253	0.001*
culturaldist	11.92116	19.06707	0.532
economicdist_entry	-3.308326	2.626893	0.208
institutionaldist_entry	-0.2014018	0.3477398	0.562
politicaldist_entry	0.3412109	1.091521	0.755
constant	962.8784	453.1941	0.034

Table 7 - Logistic Regression Results Model 4

entrymode	Coef.	Std.Err	p>IzI
year_entry	-0.5079641	0.4915774	0.301
country	-0.2436453	4.670393	0.958
industry	0	(omitted)	
asset_specificity_entry	-0.082792	0.0762529	0.278
subratio	-2.829607	2.84107	0.319
employees_entry	-0.0000934	0.0000381	0.014*
culturaldist	-8.893708	38.13917	0.816
economicdist_entry	-5.315248	4.39529	0.227
institutionaldist_entry	0.228986	0.7460624	0.759
politicaldist_entry	-0.8648109	2.122933	0.684
constant	1091.107	870.6749	0.210

Table 8 - Logistic Regression Results Model 6

Internal Variables - Results. When examining the statistical results for the internal variable *subratio,* which is included in model 2 and 4 - 7, it can be seen that it always shows a negative relationship. This is in line with the expected result in terms of the sign. The negative relationship emphasises that a greater international experience increases the likelihood to choose a JV over a WOS. However, the variable is not significant in the different models. The next internal variable, *employees_entry,* which measures firm size, is included in the same models as *subratio*. *employees_entry* is found to be significant in all models. The relationship is negative meaning that a higher number of employees at the year of entry, indicates that the likelihood increases that a JV is chosen, which is not what we expected from this variable. The coefficient has a value of -0.0000879 in model 4. This

means that a change of one unit in the number of employees at the year of entry leads to a -0.0000879 unit change in the log of the odds of our dependent variable.

Our third internal variable, asset specificity at the year of entry, (*asset_specificty_entry*), was only included in model 5 and 6 as it mainly concerns manufacturing companies. In both models, the coefficient shows a negative sign which indicates that firms with a higher asset specificity tend to choose a JV over a WOS. However, the variable is not significant in either o these models.

External Variables - Results. The external variables were included in models 3, 4, 6 and 7. First of all, the variable *culturaldist* has a positive relationship in the first two models as well as in model 7. It is not found to be significant. The positive relationship is contradicting our hypothesis, stating that the variable would be negatively related to our dependent variable. However, the sign of the coefficient changed in model 6 and became negative which is in line with our predictions. Nevertheless, the variable was not found to be significant. Secondly, economic distance at the year of entry (*economicdist_entry*) shows a negative relationship in all models, which is in line with our expectations of this variable. The negative connection indicates, that with a higher economic distance the probability increases that a JV will be chosen over a WOS. Nevertheless, the variable is not statistically significant. Thirdly, institutional distance at the year of entry (*institutionaldist_entry*), is investigated. In models 3, 4 and 7, we find a negative relationship between institutional distance and our dependent variable. In model 6, the relationship turned positive. The variable was not significant in any of the models tested. The negative relationship is in accordance with our hypothesis stating that there is a higher likelihood of choosing JV with an increasing institutional distance. Lastly, the coefficient of political distance at the year of entry (*politicaldist_entry*), shows a positive relationship in model 3, 4 and 7, and a negative relationship in model 6. The negative relationship in model 6, is in line with our hypothesis. This implies an increase in the probability of choosing to enter through a JV when the political distance between the home countries and China increases. However, the relationship is not statistically significant.

Hypothesis	Independent variable	Logistic Regression Results		
		Expected Sign	Observed Sign	Significant
H1	International Experience	-	-	No
H2	Firm size	+	-	Yes
H3	Asset specificity	+	-	No
H4	Cultural Distance	-	+*/-**	No
H5	Political Risk	-	+*/-**	No
H6	Economic Distance	-	-	No
H7	Institutional Distance	-	+**/-*	No
* Statistical results from models 1 – 4 and 7, ** Statistical results from models 5 and/or 6				

Table 9 - Results of the Logistic Regression Models

Control variables. The control variables, which will not be further analysed in chapter 5, were included in every model. In other words, the variables year of entry (*year_entry*), *country* and *industry* were part of models 1-6. In model 7, dummy variables were used for the variables year of entry and home country (see appendix G). In models 1-4, the coefficients of year of entry and industry had negative signs, while the country coefficient is positive. In model 5 and 6, *industry* was omitted from the logistic regression because the sample largely consists of manufacturing companies. In model 6, the country coefficient turns negative. The only significant control variable is year of entry, in three of our six models. When running model 7, some country and year dummy variables were omitted due to multicollinearity. Hence, the sample size decreased. The output showed that the relationships between variables as well as the number of significant variables did not change. In other words, the inclusion of these variables do not influence our analytical interpretation. A similar model including asset specificity was tested. Since the sample was reduced to mostly manufacturing companies, the smaller sample size resulted in an omission of many dummy variables, where it was no longer possible to run the model.

Statistical Test Results. In table 10, the results of the different tests conducted in Stata can be found. These tests allow us to compare the different models (except model 7, which has a unique sample) and choose the models which are the most appropriate for further analysis. According to the McFadden's R^2, the Cox and Snell R^2 and the Nagelkerke R^2, model 4 and model 6 have the highest values compared to other models in their respective samples. The Hosmer-Lemeshow goodness of fit test shows that model 2 and 3 have the highest goodness-of-fit. However, all models used have a fit at an overall acceptable level when comparing several tests. The values of the Akaike (AIC) and Bayesian Information Criterion (BIC), show that model 2 using our first sample, and model 5 using our second sample, are the best since the lowest AIC or BIC is preferred. Another test performed was the Likelihood Ratio (LR) test. However, this test could not be performed for Model 7 because the sample size was different due to the omitted variables. The results of the LR test (see appendix H) show that model 2 is the best followed by model 4 in the larger sample size. Between model 5 and 6, the former was shown to be better. Overall, it has to be added that all these tests have to be regarded with caution. The reason is that they often deliver contradicting results, as shown in table 10. We decided to focus on model 4 and model 6 in our following analysis since these models contain all variables. Overall, they also deliver good results in the tests. Even though other models also provide good tests results, we noticed that differences in results between these models and the full models are very small and therefore we decided to concentrate on the models which includes all variables and delivers a complete picture.

Test	**Model 1**	**Model 2**	**Model 3**	**Model 4**	**Model 5**	**Model 6**	**Model 7**
McFadden's R^2	0.089	0.251	0.109	0.271	0.322	0.363	0.343
ML R^2 (Cox and Snell)	0.088	0.229	0.107	0.245	0.332	0.366	0.315
Cragg-Uhler (Nagelkerke R^2)	0.136	0.355	0.166	0.379	0.465	0.511	0.471
Hosmer-Lemeshow (Goodness-of-fit)	0.5101	0.6263	0.6450	0.5596	0.5412	0.0915	0.5863
AIC	1.014	0.880	1.061	0.928	1.115	1.215	1.148
BIC	-427.480	-437.691	-410.974	-421.010	-137.545	-124.361	-305.417
Number of observations	117	117	117	117	53	53	104

Table 10 - Statistical Test Results

Multicollinearity. As already discussed in chapter 4.1.1, multicollinearity is evaluated through the Pearson correlation matrix, which also indicates the significance of correlations, shown in table 6. As illustrated, several correlations are statistically significant at a significance level of 0.05. Moreover, the variables *cultural distance* and *economic distance* have very large standard errors (in relation to their coefficients). We suspect that this is due to multicollinearity being present in our sample. The Pearson correlation table also indicates that multicollinearity is present between some variables. As already discussed, several external variables show strong bivariate correlation values in the correlation matrix. The standard errors of coefficients have a tendency of being very inflated when a severe degree of multicollinearity exists. This could lead to very unreliable estimates in logistic regressions (UCLA, 2017). Dropping different pairs of external variables improved the standard errors as well as the overall fit of the model. However, the relationship between different variables did not change, hence the interpretation in previous sections still remains. For instance, we achieved a better fit in the Hosmer-Lemeshow test when we only included cultural distance and political distance as external variables. A better fit was also achieved in a model including only institutional distance and political distance as external variables. In some models where different variables were dropped, political distance became significant. Nevertheless, as the omission of possibly relevant variables lead to an incomplete model, we decided not to follow or include any of these models.

Heteroskedasticity. The non-constant variance of error terms, known as heteroskedasticity, can result in a logistic regression consisting of parameter estimates which are misleading and biased (Williams, 2015). However, heteroskedasticity is a very different problem in logit and probit models compared to in Ordinary Least Squares. The reason is that the dependent variable in the former models measures probability which makes them very sensitive. This also makes the problem of heteroskedasticity very difficult to solve (Buis, 2010). We are aware of this issue when analysing the findings of all models.

All in all, most of our statistical results are not in line with predictions outlined by different scholars. In chapter 5, our results are analysed in greater detail and in connection with the

interviews conducted with our three case companies. Next, the institutional environment in China and the backgrounds of our case companies are presented.

4.2 Findings from the Qualitative Part

In the first section, the institutional and regulatory environment which Scandinavian MNEs in China are facing, is described by information collected through a written interview. This was conducted with Muriel He, who works as an associate at the Global Law office in Shanghai in China. The regulatory process is outlined in order to understand the regulatory framework which Scandinavian firms go through when starting to invest in China. In the next section, background information of our three case companies is presented. The idea is to introduce their business concepts and internationalisation strategies in China. The findings of our case company interviews are presented and analysed in chapter 5.2.

4.2.1 The Regulatory and Institutional Environment in China

Every company that enters the Chinese market, regardless of the country of origin, has to go through a multi-step regulatory process with different Chinese institutions. In terms of record-filing procedures, several steps and applications have to be completed. In order to set up a new business in China, the foreign company has to apply to reserve its Chinese company name and applications for incorporation, chop carving and foreign exchange registration have to be completed (M He, personal communication, 1 March 2017). Chop carving means that the company has to apply for the authorisation of various documents, which includes the carving of different seals or chops (Ku, 2011). Furthermore, an MNE has to register with customs in case the firm plans on importing and/or exporting. Also, a bank account has to be opened and overall an MNE has to go through the whole record-filing process of setting up a new business in China. Several approval procedures from different Chinese governmental institutions have to be completed before a new foreign business can be opened. Approvals have to be obtained from the National Development and Reform Commission and from the Ministry of Commerce or its regional branch. Another essential step is to get a business license from the State Administration of Industry and Commerce or the local counterpart. Moreover, other materials have to be collected and completed, as for example a JV contract if relevant, former application documents to the Chinese authorities, feasibility reports for preparation and/or articles of

association. It is also necessary to get an approval of the preparation of seals, which is done with a registration at the Public Security Bureau. Finally, MNEs entering China need to obtain a foreign exchange registration certificate as well as the approval from the State Administration of Foreign Exchange to open a foreign currency registered capital account (M He, personal communication, 1 March 2017). When it comes to restrictions regarding the industry of foreign companies which plan to enter China, the *Catalogue for the Guidance of Foreign Investment Industries* has to be consulted (M He, personal communication, 1 March 2017). In this catalogue, which is updated approximately every three years (Kaja et al., 2015), the Chinese government lists industries which are encouraged, restricted or prohibited. Industries that are not listed in the catalogue are considered to be permitted. The catalogue is valid for foreign investment activities in China, which includes the setup of JV or WOS (M He, personal communication, 1 March 2017). Since April 10th 2015, the catalogue contains 349 encouraged industries, 38 restricted and 36 prohibited industries (Huang & Ma, 2016). In encouraged industries, the Chinese government provides incentives to foreign investment. These can be related to tax benefits or facilitated approval processes. Foreign companies that operate in industries which are listed as restricted, have to fulfil specific requirements and face restrictions, if they decide to enter China. These can include for example the mode of entry, which might be limited to a JV. The approval process can also take longer (Kaja et al., 2015). Restricted industries include for example medical institutions, airlines or higher education (Huang & Ma, 2015). In prohibited industries, the Chinese government does not allow foreign investment (Kaja et al., 2015) which includes for instance the tobacco industry or online publications (Huang & Ma, 2015). As shown above, new entrants to the Chinese market have to go through a rigorous, complex approval process and might be restricted by regulations related to their industries. This means that the institutional environment may pose challenges to Scandinavian companies in China. This will be discussed in greater detail in the analysis of our interviews.

4.2.2 Case Companies

The following section presents background information about the entry mode and expansion strategies of the case companies, IKEA, H&M and Grundfos, in China. The information was collected from secondary sources.

IKEA. The Swedish furniture company IKEA, was founded by Ingvar Kamprad in 1943 and is now owned by the Stichting INGKA foundation (Jonsson, 2008). The firm has 340 stores in 28 countries (IKEA, 2017a), making it the largest furniture retail company in the world. When it comes to internationalisation strategies, IKEA has used a standardised concept across all markets regardless of cultural differences. This means that IKEA should be perceived in the same way in all countries, which is for example reflected by its cost efficiency and low prices, which are important aspects of IKEA's company culture. In order to ensure that the standardised concept is adopted in a new market, knowledge sharing is an essential part of the company culture and it is also claimed to be an important factor for the company's international expansion. Forward knowledge flows about corporate knowledge, between headquarters and subsidiaries are fundamental across geographical markets and also necessary to ensure that a market entry is successful. IKEA's intranet and manuals are largely used for communication and knowledge sharing of best practices in different markets. However, the transfer of tacit corporate knowledge is done through expatriates who educate local employees about the company's routines and values. Reverse knowledge flows, mostly related to market and internationalisation knowledge, are also important for IKEA since best practices in certain markets as well as market entry experience can contribute to the development of the whole company. Lastly, lateral knowledge flows and cooperation within IKEA's geographical regions may also be achieved depending on the diversity of markets within a region (Jonsson, 2008).

IKEA's entry into China was through the opening of its first test store in Beijing in 1998. Thereafter, the company has continued to expand by opening stores in large cities around the country with an early expansion focus on the eastern part of China. One of the main challenges of IKEA in China has been to maintain the low price level and target many people while income levels have been low and import duties high (Jonsson, 2008). When IKEA entered China, its products were more expensive than the ones of local low-price competitors, which lead IKEA to cut prices to become profitable (Ringstrom, 2013). The low income levels made it necessary for IKEA to develop new products which were particularly made for the Chinese market. Another challenge has been to handle the high level of competition, where local production and the competence in home interior have been crucial factors in order to stay competitive with local firms. IKEA has thereby pursued its strategy of offering products in large volumes and at low prices. Furthermore, trying to

protect itself from firms copying their products, has also been challenging for IKEA (Jonsson, 2008). It is important for IKEA to secure its identity across markets, however a local adaptation is sometimes needed. For instance, larger stores have been built in China since the country has a higher amount of visitors than in Europe. In addition, new stores have been located closer to the customers in China, where fewer people own cars (Ringstrom, 2013).

H&M. The Swedish fashion retailer, which was founded by Erling Persson, opened its first store in 1947 (H&M, 2017a). The company currently has over 4400 stores in 65 physical markets and 35 e-commerce markets. It is also one of the leading fashion firms in the world. H&M Group consists of six fashion brands and one home interior brand (H&M, 2017b). H&M wants to "*make sustainable, good-quality fashion accessible to as many people as possible*" (H&M, 2017c, p.1) and the CEO of H&M Group, Karl-Johan Persson, means that the company applies a philosophy called "*democratic fashion*" (Chao, 2012, p.1). This means that H&M wants to sell fashion in a large range of designs and styles at low prices to everyone. Sustainability is central to H&M's business and the company has won several awards for its sustainability work (H&M, 2017d). The company's sustainability report shows that it is at the forefront in several areas such as recycled cotton and the use of renewable energy (Aktiespararna, 2015). In regards to H&M's international expansion strategy, products are usually standardised globally however some local adaptation is sometimes done due to differences in climate across markets (Chao, 2012). H&M expands rapidly on a global scale by opening up new stores and through the rollout of new online stores. As part of its expansion strategy, H&M does not own stores but the MNE is settling leasing agreements. This gives a greater flexibility to the company. Next to its physical expansion, H&M also expands and diversifies its product range and brands on a continuous basis (H&M Annual Report, 2016).

In 2007, H&M Group opened its first store in China and ever since then, the company has continued to expand by opening stores in both large and small cities throughout the country (H&M, 2017e) with a current number of 455 stores (H&M, 2017f). Before entering China in 2007, the company was already familiar with the market through sourcing products from it for 25 years (Hellstrom, 2008). The opening of the many shopping malls in China has been one of the growth opportunities for H&M. However, the company has

experienced that other companies have tried to copy their brand in China (Chao, 2012). As the Chinese market has become more and more competitive, H&M Group has expanded fast compared to in its other markets and also grasped opportunities in smaller cities, where competition has not been as fierce (Fickling & Lin, 2014). H&M's CEO, Karl-Johan Persson, argues that the tough competition in China means that a high level of engagement is needed to succeed in the market, which is a why H&M has focused on expanding fast in the country (Affärsvärlden, 2011).

Grundfos. The Danish MNE, Grundfos, is the largest manufacturer of residential and industrial pumps worldwide (Tsang & Chong, 2014). It was founded in 1945 in Bjerringbro by Poul Due Jensen. Today, the company is active in 53 countries through 83 companies and subsidiaries. The pump solutions produced and sold by Grundfos, are mainly for buildings and water supply as well as wastewater. Industrial pump solutions are offered as well. The pump manufacturer entered the Chinese market in 1994 and opened up its first production facilities in Shanghai three years later in 1997 (Grundfos, 2017a). Since Grundfos first established its operations in China, the pump manufacturer has built a dominant position in the high end market with a market share of around 50%. Even though the prices of its products, are almost twice as high compared to pumps from local manufacturers, the company build up a strong position which is also rooted in its diverse product range, high quality of products and the wide range of additional product features (Tsang & Chong, 2014).

Despite the company's success in the premium segment, competition from Chinese manufactures has intensified during the last years. Local firms have learned quickly to produce low-cost pumps with an appealing design which are "*good-enough*" in quality (Tsang & Chong, 2014, p.1) to satisfy the needs of the Chinese customers in the middle segment. Grundfos approached this challenge by creating a low-cost brand which was not yet present in the Chinese market. By establishing the new company Emerco, which emerged from the pump maker DAB that Grundfos had acquired two decades ago, the MNE was able to serve lower price segments in China as well. With the Emerco brand, products are priced 20-30% lower than at Grundfos but 10% higher than prices of Chinese competitors. In order to avoid cannibalisation of products, the two different brands are

clearly separated so that no link between both companies can be identified (Tsang & Chong, 2014).

In terms of geographic expansion in China, Grundfos decided to split up its company in order to separately serve the two very distinct geographic markets. The Eastern and Western business activities were therefore separated. According to the general manager of Grundfos China, Humphrey Lau, the great differences in economic development in both locations made this step necessary. He expressed that "*If you can only deliver one-size fits all, you are bound to fail*" in the Chinese market (Lau, 2010, p.1). Both markets are therefore approached with different product offerings, market approaches, service and delivery systems (Lau, 2010). Today, this expansion strategy, which also takes Central and Western markets into account, has paid off as the company is still experiencing solid growth despite a slowing in the construction sector in China (Grundfos, 2016).

5. Analysis and Discussion

The following chapter consists of an analysis of the quantitative and qualitative findings of this research. First of all, the empirical findings presented in chapter 4, are analysed to determine how different quantitative factors influence entry mode decisions. Secondly, the case interviews are analysed to understand expansion determinants of Scandinavian MNEs in the Chinese market. Our conceptual framework is used as a structure throughout the analysis. In accordance with this framework, both parts of the analysis are divided into an internal and an external perspective.

5.1 Analysis of Entry Mode Determinants - Quantitative Part

In the next section, the results of our quantitative variables are analysed and discussed in regards to theory and previous studies.

5.1.1 Internal Determinants

International Experience. As already mentioned, the variable international experience, has received great attention in entry mode literature. It is embedded in most of our main theories, namely in Transaction Cost Theory, the OLI framework and the Resource-Based View. In Transaction Cost Theory, it often measures internal uncertainty (Zhao et al., 2004) and in the Eclectic Paradigm (OLI) it is part of the ownership-specific advantages. When it comes to the Resource-Based View, the factor can be seen as one of the advantages of a firm (Eriksson et al., 1997) or a source of learning capabilities, which possesses dynamic characteristics (Brouthers et al., 2008). As outlined in chapter 4, the variable *subratio* was used to measure the international experience of firms. The observed relationship was negative but at the same time, the coefficient was insignificant. This implies that according to our quantitative model, the international experience of Scandinavian MNEs does not play a role when it comes to choosing between a JV and a WOS. Since China is a market which is different from many other markets in terms of the business environment (Chen, 2004), it is no surprise that previous experience might not automatically impact the entry mode choice in this particular market. The reason is that it might not be applicable to the unique Chinese market. As the literature displays contradicting views in the link between international experience and entry mode decisions,

our result is in line with some previous studies (e.g. Kogut & Singh, 1988, Blomstermo & Sharma, 2006). Some of these question the importance of international experience in an entry mode choice since they also found insignificant results. When the negative relationship is regarded in isolation, few studies came to similar results. For instance, Wilkinson et al. (2008) investigated the link between equity modes of entry and the length of the firm's international experience and found a negative connection. According to Anderson & Gatignon (1986), a negative association can be explained by the ethnocentrism of firms. This means that firms with less international experience, prefer to have employees and managers from the home country in charge of operations abroad. This is often done in entry modes associated with higher levels of control like WOS. The ethnocentric perspective might change as more international experience is gained. Later, a more polycentric view is adopted which allows firms to exploit management capabilities of locals as well (Erramilli, 1991). In this regard, a negative relationship has a rational behind it, which has been analysed by different scholars. However, a positive or insignificant association has been found more frequently (Wulff, 2015b). Furthermore, it should be noted that the great deviation of findings is rooted in the different measures which have been used by scholars. These range from ratios similar to the one used in this thesis, to measures which focus on the absolute number of years of international experience. Most of these measures are related to experience at the firm level. This approach might leave out other influencing factors related to behavioural uncertainty. The reason is that personal experiences of managers can also be a part of the foreign ones. The omission of this personal aspect, which is more difficult to capture, can distort results given that entry mode decisions are often made by managers with different prior experiences (Zhao et al., 2004). When only looking at the sign of the international experience coefficient, our result is in accordance with findings from other empirical studies. However, our study showed that the variable does not have an impact on entry modes, which is also in line with some studies. Our findings might be attributed to the chosen measure of international experience which might not uncover all aspects of international experience such as on a personal level.

Firm Size. Due to the frequent use of the number of employees as a measurement of firm size in literature (Wulff, 2015b), our study also included this variable (*employees_entry*). The variable is connected to the Eclectic Paradigm and particularly measured as the

influence of an ownership advantage (Wulff, 2015b), on entry mode choice. Our empirical findings show signs of a negative relationship between firm size and an increased level of ownership control when entering the Chinese market. The relationship remained significant throughout all models, however the negative relationship is not in accordance with our expectations. As often hypothesised in previous entry mode research (Wulff, 2015b), we expected firm size to be positively associated with entry mode choice, indicating that larger firms tend to enter through a WOS and smaller firms through a JV. The variable is not only related to the Eclectic Paradigm, but also to the Resource-Based View (Quer et al., 2012, Pangakar & Yuan, 2009). The expectation of a positive relationship is often based on the argument that large firms have more resources than smaller firms (Pangakar & Yuan, 2009). Thereby, the size of firms is related to their ability to meet resource prerequisites (Buckley & Casson, 1998). A vast amount of entry mode studies has included firm size as a control variable and empirical findings have varied to a large extent. Wulff (2015b) assessed empirical research on foreign entry mode, and showed that 37.8 % of studies found the variable to be significant and positively associated with choosing higher control modes of entry. In contrast, 13.5 % of studies found the relationship between a higher control mode and firm size to be negative (Wulff, 2015b). This is in line with our findings. Quer et al. (2012) also found that firm size was negatively related to the likelihood of choosing to enter through a WOS. Moreover, our findings are supported by Gatignon and Anderson's (1988) arguments that large foreign operations are less likely to involve higher control modes. The reason is that the size of foreign operations seems to force large MNEs to share their ownership in regards to sizeable projects (Anderson & Gatignon, 1988). As discussed by Wulff (2015b), results concerning the relationship between firm size and entry mode choice are often unexpected and inconsistent, where the coefficient seems to be insignificant or positive in a similar amount of cases. Our findings of this variable indicate that as firm size increases, so does the tendency to enter through a JV. Quer et al. (2012) argued that "*The path to becoming a global player could require […] firms to accept a lot of local partners […]*" (Quer et al., 2012, p.11). This argument could potentially explain the negative relationship observed between entry mode choice and firm size in our study. Moreover, as the global network of firms may broaden with increases in firm size, companies may need to share their ownership in order to coordinate large projects in distant markets like China. Overall, our results are neither in line with the majority of findings from previous studies nor in accordance with the Resource-Based

View. However, our findings contribute with useful insights regarding the influence of firm size on entry mode choice of Scandinavian MNEs in the Chinese market.

Asset Specificity. In two of our models, asset specificity was included in order to investigate a possible relationship of this very frequently used variable in entry mode research. It is derived from the transaction cost framework (Wulff, 2015b), and as outlined in chapter 2, it is the most important dimension of this theory (Williamson, 1989). When taking on a resource-based perspective, asset specificity can be regarded as an internal source of knowledge and capabilities which are incorporated in the company's operations and strategy. As the Resource-Based View is closely connected to the Eclectic Paradigm by partly covering ownership-specific advantages, we suggest that asset specificity also plays a role in this main theorem. The variable has also been used as a measure in models related to the OLI framework (Wulff, 2015b). This means that it is prevalent in most of our underlying main theories and its representation and status in entry mode literature is undeniable. Despite its strong representation in the literature, the is insignificant in both of our models. It also shows a negative sign, which contradicts our expectations. As shown in the extensive review on entry mode studies, conducted by Wulff (2015b), many previous studies came to the same result. In the review, 47 % of 106 studies within the transaction cost framework, revealed that asset specificity was statistically insignificant, which supports our findings. When R&D intensity is used as a proxy for asset specificity, the results align to a larger extent with our outcomes. When using this variable across frameworks, around 58% of statistical tests showed that R&D intensity was insignificant. In studies which used the exact same dependent variable as we did (JV vs. WOS), results were similar (Wulff, 2015b). As outlined in chapter 3.4.4, a range of scholars have found evidence that asset specificity is an insignificant determinant of entry mode choices (Brouthers & Hennart, 2007; Wulff, 2016; Brouthers, 2002). The different, inconsistent empirical findings might again be due to the differences in measures used, as the definition for asset specificity is not unambiguous (Brouthers & Hennart, 2007). We decided to just include one facet of this complex construct, by measuring it as R&D intensity. Another question that remains unanswered is whether R&D intensity of the parent firm, is appropriate to account for the level of asset specificity introduced in the Chinese market. This implicitly assumes that the parent company will induce the same knowledge level to subsidiaries in the foreign market. By entering China, firms may also aim to reduce costs

and realise economies of scale instead of primarily transferring knowledge, which comes at a risk. Overall, we come to the conclusion that the relationship of this variable follows the consensus in empirical research. Nevertheless, we expected a different outcome in terms of significance due to the importance of asset specificity in the transaction cost framework.

5.1.2 External Determinants

Cultural Distance. The variable cultural distance is embedded in Institutional Theory, Transaction Cost Theory as well as the Theory of Cultural Distance. The mixed results of the variable in previous entry mode research (Sousa & Bradley, 2008), are also reflected in our findings. Although cultural distance is one of the most popular measures which has been used across different theories (Wulff, 2015b), the relationship between entry mode choice and cultural distance was found not to be significant throughout all of our models. These insignificant results are in accordance with findings of Tihanyi et al. (2005). They are also partly in line with Anderson & Gatignon's (1988) results, showing that socio-cultural distance overall does not seem to have a large influence on entry mode choice. Erramilli (1996) also found the variable cultural distance not to be significant. The fact that the sample was limited to subsidiaries in Europe, was discussed as a potential reason why the sample did not contain enough variation in culture, to explain differences in ownership levels. Erramilli's (1996) discussion could support our results of insignificance. The variation in cultural distance between each Scandinavian country and China is relatively low, which was discovered through our calculations of cultural distance using the Kogut and Singh index. The reasoning behind our argument is also connected to the fact that firms from the three Scandinavian countries are characterized by similarities in business culture (Carlsson et al., 2005). Levitt (1983), means that there is a convergence among preferences and tastes of people from different countries in the globalisation of markets. He further argues that this leads to a global commonality across markets. The argument that cultural preferences are remains of the past (Levitt, 1983), could indicate that the influence of cultural distance is not relevant and could explain our insignificant results. Our expectation of a negative relationship between cultural distance and entry mode, was met in model 6, indicating that a higher degree of cultural distance increases the likelihood of entering through a JV. Although our results were insignificant, the negative relationship is in line with results by Kogut and Singh (1988), which showed that a high level of cultural distance increases the likelihood of entering through a JV. When only regarding the

direction of the relationship, the result in model 6 is also in line with other scholars (Shenkar, 2001; Hennart & Larimo, 1998). It could be linked to concepts in Transaction Cost Theory where JV can be seen as a strategy to deal with uncertainty due to cultural gaps (Anderson & Gatignon, 1988). Sousa and Bradley (2008) claim that transaction cost scholars associate a higher degree of cultural distance with increased transaction costs. This is explained by information costs and the fact that it becomes more difficult to transfer skills and capabilities across markets. In contrast, model 3 and 4 showed an insignificant but positive relationship between the dependent and independent variables. Although insignificant, the positive sign of the coefficient indicates that WOS is preferred over JV as cultural distance increases. Even though entering through a JV may reduce transaction costs (Sousa & Bradley, 2008), it means that companies need to share ownership, control and proprietary assets with a partner (Kogut & Singh, 1988). As outlined in the literature review, costs of collaboration may increase along with a higher cultural distance between countries (Brouthers & Brouthers, 2001). This argument supports a positive relationship, where collaboration costs in partnerships characterised by a high level of cultural distance, may result in a tendency of choosing a WOS instead of a JV, when entering China. To sum up, entry mode research shows mixed results in regards to the impact of cultural distance (Anderson & Gatignon, 1986) and so do our models in terms the signs of coefficients. Overall, our findings of cultural distance are not in accordance with most previous studies which have found the coefficient to be significant.

Political distance. The external uncertainty associated with entry mode decisions is partly captured by introducing the political distance variable. As outlined in chapter 2, it is mainly derived from Institutional Theory, however it is also partly related to the transaction cost framework, as it has been combined with asset specificity (Anderson & Gatignon, 1986). According to Institutional Theory, external uncertainties, including political risk, may influence entry mode decisions (Brouthers & Hennart, 2007). For instance, institutional restrictions in the legal systems influence a company to choose lower control entry modes like JV instead of WOS (Brouthers, 2002). Political risks as for example corruption (Uhlenbruck et al., 2006) or expropriation (Hennart, 1988) are of institutional nature and can likewise influence entry modes. Studies found that political risk can be lowered by entering through for instance a JV (Bradley, 1977; Hennart, 1988). Overall, this variable is a construct which is strongly intertwined with the institutional

environment and it is therefore drawn from this extensively researched theory in entry mode literature (Delios & Beamish, 1999). The results regarding political distance were not consistent in our models. While the coefficient was positive but insignificant in two models, it became negative and stayed insignificant in another model. The latter relationship, but not the significance is in line with our expectations. However, the insignificant outcome does not follow the transaction cost perspective. Even though many scholars found a significant (Brouthers et al., 2002) and negative relationship (Luo, 2001; Gatignon and Anderson, 1988), other studies found results that reflect our findings. For example, Quer et al. (2012) concluded that political risk does not influence the entry mode decision between a JV and a WOS. However, it has to be taken into account that this study looked at Chinese firms which invested abroad. This can lead to different results than expected from our sample which consists of Scandinavian firms. In general, it is notable that our sample solely concentrates on Scandinavian firms engaging in China which can yield different results compared to other studies. The latter often included a wider range of either home and/or host countries. Our result might have also been influenced by the inclusion of other external variables that measure similar effects. For instance, political distance and institutional distance can exhibit similarities. We also observed multicollinearity between some variables. When we dropped different (mostly external) variables from the model, we noticed that political distance became significant. However, as the omission of potentially relevant variables provided an incomplete model, we did not choose to follow or include any of these models. Furthermore, we did not include a variable which measures an interaction between country risk and asset specificity, as proposed by Transaction Cost Theory (Anderson & Gatignon, 1986). This could have influenced the result of the political distance variable as well. It is argued that the higher the combination of external risk measures of political and economic nature with asset specificity, the more likely it is that an entry mode with a higher control is chosen. Thus, it is argued that external uncertainty only plays a role in interaction with a high level of asset specificity because then control is needed. When external unpredictability is regarded in isolation, it may become difficult to observe a relationship as a higher level of uncertainty does not necessarily change the "*default option*". This means that companies normally enter with a low control entry mode to hedge against external risks (Anderson & Gatignon, 1986). All in all, we can say that our results do not reflect most previous empirical findings. This may for

instance be rooted in our measure, the choice of home countries as well as host country and/or the correlation with other external variables.

Economic Distance. The variable economic distance, was included to examine external uncertainty in terms of differences in the economic environment between the host countries and China. The variables GDP and GDP growth have been used frequently as control variables in previous entry mode research (Wulff, 2015b). Tsang & Yip (2007) claim that distance in terms of culture has frequently been measured, however scholars seem to have paid much less attention to differences in economic development between the domestic and the foreign market. An understanding of this variable is important in several ways as it could affect a company's foreign operations. For example, differences in overall salary levels between home and host countries are influenced by phases of economic development and other macroeconomic aspects (Tsang & Yip, 2007). As previously mentioned, we used the natural logarithmic difference in real GDP per capita, as a proxy for the economic distance between the home country and China, at the year of entry. The variable is embedded in Institutional Theory, where we examine how formal institutions may reduce uncertainty in regards to the direction of economic development. We argue that economic distance can also be seen as being partly captured by the Eclectic Paradigm, in regards to location-specific advantages. Moreover, there seems to be a connection between economic distance and Transaction Cost Theory, where transaction costs can be lowered depending on the role of institutions (North, 1991). In some of our models, the negative relationship which was found between economic distance and entry mode choice, is in line with our expectations in terms of the sign. Nevertheless, the coefficient was not found to be statistically significant throughout any of our models. It has been argued that companies tend to prefer entering host countries with stable economic, political and culturally similar conditions through a WOS (Brouthers, 2002; Kim & Hwang, 1992). This argument could potentially support our findings of a negative relationship, indicating that a larger economic distance increases the likelihood that Scandinavian firms choose a JV rather than a WOS, when entering China. As mentioned earlier, several scholars examined the influence of economic distance on the entry mode outcome in different ways (Tsang & Yip, 2007; Johnson & Tellis, 2008). Nevertheless, few researchers seem to have investigated the direct effect of the variable on an entry mode choice between a WOS and a

JV. Our thesis contributes to filling this research gap and provides an understanding of the effect of economic distance on entry mode choice.

Companies have less difficulties when dealing with host countries which have a shorter economic distance to their home country (Johnson & Tellis, 2008). Therefore, we suggest that they would prefer to enter through a JV when the distance is higher, which supports the sign of the coefficient in our study. Overall, our findings are only in line with our expectations in regards to the sign of the coefficient. The reason is that our findings were not significant and do not show any connection between economic distance and Institutional or Transaction Cost Theory. A possible explanation for our insignificant results could be that, although the economic distance between China and the home countries may have been high at the time of entry, the expected GDP growth of China as an emerging market might have led to a different focus. It is possible that the companies have focused more on China's expected growth rather than the real GDP per capita difference, at the time of entry.

Institutional Distance. Another external variable, which was tested in four of our models, captures the institutional distance between the home and the host country. The variable is derived from Institutional Theory. By introducing this variable, we complement other external measures as for instance cultural distance (Xu & Shenkar, 2002). Thereby, we broaden the view and account for the complexities associated with China's institutional environment. Institutional Theory should be combined with Transaction Cost Theory because it builds the framework in which transactions take place (North, 1990). Therefore, we also draw a relation between these two theories. The institutional context affects entry mode decisions together with transaction cost features and the cultural context (Brouthers, 2002). Moreover, we suggest that the Eclectic Paradigm can be related to this external variable because institutional factors play a determining role when it comes to location-specific advantages of the host country. As presented by Wulff (2015b), institutional distance has not been used very frequently as an independent variable in empirical entry mode studies, although it has been more prevalent in theoretical studies. Capturing this factor from the former point of view, therefore supports us in understanding the nature of this construct as well as its relation to the choice of entry modes. It also contributes to literature by giving new insights.

Our empirical results of the coefficient showed a negative sign in three models, however it was not significant. When only looking at the sign of the coefficient, it is in line with our expectations. A negative sign means that a higher distance in institutions, increases the probability that a JV is chosen over a WOS. As explained in chapter 2, companies would rather choose entry modes which imply lower levels of control when entering a country that has a great institutional distance (Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992; Hill et al., 1990). Kostova and Zaheer (1999) argued that MNEs experience more difficulties in terms of understanding the foreign environment as the institutional distance increases. Moreover, in a context of larger institutional distance, MNEs find it more challenging to adjust to legitimacy requirements in the host country. These previous findings and arguments support the negative relationship found in our study. Our result could also be explained by the fact that a JV allows firms to share some of the investment risks (Agarwal & Ramaswami, 1992), associated with a higher institutional distance, with a partner in China. Moreover, partner firms may help each other increase their bargaining power when it comes to negotiating with the Chinese government. However, our result is not statistically significant and the hypothesis is therefore rejected. Again, it is possible that the proxy used for institutional distance, namely scores from the Index of Economic Freedom, does not completely manage to capture the complex construct of the institutional environment. Furthermore, as the variation in institutional distance between each Scandinavian country and China may not be large, it could be difficult to capture the subtle differences in entry mode choices. All in all, we can say that the observed relationship is in line with previous literature and our expectations of the sign. However, the coefficient was not significant. The reasons for that may be various and for example rooted in our chosen measure, related to our sample or to the fact that this variable does not have explanatory power in our specific study.

Control variables. When looking at the relationship between entry mode choice and the independent variables included in our models, some comments can also be made about the performance of the control variables. The variable *industry*, which is a very frequently used control variable in entry mode research (Wulff, 2015b), distinguished between firms from the retail/wholesale and the manufacturing industry. Wulff (2015b) investigated some of the most popular variables included in empirical entry mode research, and did not find strong results of industry variables. This is in accordance with our result of the industry

variable, which was found not to be significant in any of our models. In accordance with Wulff (2015b), who included a measure to control for differences between home countries, we included another control variable in our models, namely *country*. The coefficient was not significant, which means that the home country does not have an effect on the choice of entry mode in our study. In terms of the last control variable, year of entry, the coefficient was significant in three models. A negative relation was shown, which implies that Scandinavian companies prefer to enter through a JV over a WOS with increasing time from 2007 to 2017. However, this does not align with our understanding as China has opened up to investments and industries more and more over time. This makes it easier for companies to enter through a higher control mode.

5.1.3 Summary of the Quantitative Analysis

The quantitative results of our study have been analysed and discussed in the context of theories included in our literature review as well as relevant empirical research. Moreover, the quantitative findings have been analysed on the basis of our conceptual framework, which captures both internal and external factors that may influence entry mode decisions. The aim has been to provide reasonable suggestions and explanations of the results and findings of our models. As discussed in the previous sections of this chapter, researchers have used many variations of measurements for the variables included in our study. Hence, we are aware that a modification of these measurements and our sample may influence our results. Overall, we do not find support for most of our expectations. This could be due to the high level of correlation between some variables and suspected multicollinearity in our models. It can also imply that, according to our study, the selected variables are not relevant in the entry mode choice. In contrast, we found that some of the relationships were aligned with what we expected even though we could not find statistical support for it. The next section provides an analysis of the qualitative findings. Thereafter, the quantitative and qualitative analyses will be combined in order to answer our research question of how different factors influence the entry mode and expansion strategies of Scandinavian MNEs in the Chinese market.

5.2 Analysis of Entry Mode and Expansion Determinants - Qualitative Part

In the following section, our findings from the case interviews with Bengtsson and Maynard from IKEA, Eistrand from H&M and Kiaer from Grundfos will be analysed (audio files are provided in addition to the appendix). The qualitative findings are analysed in connection with theory and previous research. The chapter is divided according to our conceptual framework. Both internal and external entry mode and expansion determinants as well as challenges experienced by the case companies in the Chinese market, are analysed. Even though this chapter primarily concentrates on influencing factors in expansion, we regard market entry as a part of the expansion process as suggested in the framework by Cui (1998).

5.2.1 Entry Mode and Expansion Strategies

As argued by Werner (2002), several internal and external factors are predictors of a company's entry mode decision. The three case companies included in our case studies entered China at different points in time. Hence, variations in the external environment in terms of the economic, political and regulatory environment have influenced their entry mode decisions in different ways. At the same time, internal parameters, such as the company's business model or concept, are also likely to affect the timing and strategy of entry and expansion. None of the interviewees were working at the case companies at the time of entry, however they were still able to provide us with insights regarding the entry mode strategies. As outlined in chapter 4.2.2, IKEA opened its first store in China in 1998 (Jonsson, 2008), through a shared ownership, however the company does no longer have a Chinese partner. Legal counsel, Charlotta Bengtsson, described how both external and internal factors influenced the company's decision to enter China. First of all, the concept that IKEA should be *"for the many people"* was described as the basic background for entering the country since China has a very large population. Secondly, the reason for entering through a JV was a consequence of the legal limitations in China at the time. Both Bengtsson and her colleague Simon Maynard, who is a Vice President in Retail Property and Expansion at IKEA, explained that the JV entry mode is neither a common nor a preferred form of entry for IKEA. The company normally enters through a WOS. This is also the case for H&M, which was able to enter the Chinese market through a WOS in 2007 (H&M, 2017e). Maria Eistrand, who was a Real Estate Manager for H&M in South East

Asia at the time of the interview, described how the company was not bounded by any industry-specific legal restrictions such as license barriers. The differences in entry mode possibilities described above shows how two MNEs from the retail/wholesale industry have been influenced by the institutional environment in China at different points in time. These findings are in line with Luo's (2007) arguments that barriers to entry and regulatory limitations have become less strict, particularly in regards to WOS, where China has opened up more industries to foreign firms. Compared to IKEA, H&M's opportunity of entering through a WOS also confirms that the retail industry has become less restricted when it comes to entry mode choice (Luo, 2007). Furthermore, differences between industries become evident when looking at the case of Grundfos. As described by Sales Director of Grundfos China, Peter Kiaer, the company entered China in 1994 through the establishment of a WOS. Kiaer explained how Grundfos did not have any restrictions in terms of entry mode choice since the company was not part of a so-called strategic industry in China. Prahalad and Doz (1987) argue that host governments often limit the scope for integration in efforts to protect the national development. The industry restrictions described by the case companies are also in accordance with information provided in the interview with associate Muriel He, from the Global Law Office in China. The associate described how the Chinese government lists regulations related to foreign investment activities in certain industries. The entry mode restrictions outlined by the case companies can be connected to Institutional Theory, where a country's institutional context affects firms' boundary choices (Brouthers & Hennart, 2007). According to New Institutional Theory, the limitations described by the case companies are examples of regulative forces (Scott, 1995), which previous scholars found to have a larger influence on entry mode choices than normative forces (Makino & Yiu, 2002). The level of constant interaction with the government increases with an industry characterised by many regulations. Nevertheless, government interaction is essential for MNEs operating in China (Chen, 2007).

In regards to expansion strategies, all three case companies have continued to expand in China, to a large degree since their initial entry. As outlined in the literature review, companies go through four stages when expanding in the Chinese market. In the preparation stage, it is important to gain knowledge about the new market and assess the right time and place of entry (Cui, 1998). This theory is supported by Bengtsson, who

meant that thorough studies were made before entering China. More specifically, she explained that it was important for IKEA to understand the living situation, needs and preferences of the Chinese customers, not only at the time of entry but also in the coming decades. Moreover, she meant that building up the IKEA brand in a new market, is a process that takes several years. Eistrand described how H&M also prepared and made thorough research in their assessment of optimal store locations in China. For instance, the company examined GDP growth, the size of the population as well as the fashion level in different cities before entering and expanding in market. According to Cui (1998), the next expansion stage, known as the entry stage, can be quite challenging when dealing with regulations and bureaucracy of the Chinese market. This is evident when looking at the way IKEA in which was limited in their entry mode choice due to regulations in the industry. According to Cui (1998), the third stage, known as expansion, is characterised by an incremental commitment of resources where some important aspects involve monitoring economic trends as well as the environment in the host country. In this way, market opportunities can be seized. Nevertheless, regional differences in terms of for example demand and economic development should also be taken into account when deciding on an expansion strategy (Cui, 1998). This is in line with Lau's (2010) argument that a strategy needs to be adapted when it is used in different parts of China. In accordance with Cui (1998), Bengtsson explained that IKEA's expansion strategy in China is based on where people live as well as where there is potential in terms of demand. In this sense, she meant that there are huge variations between regions in China. Moreover, external factors may sometimes limit expansion. An example is the fact that Chinese regulations do not allow foreign investors to own land, but they may lease it on a long-term basis from the government. In addition, Bengtsson and Maynard explained that the cost of land is increasing. These factors make it essential for companies to thoroughly investigate the market before making long-term resource commitments. The two IKEA interviewees both pointed out the need of abundant resources when expanding in new markets. These arguments are supported by the Resource-Based View, where the VRIO framework highlights the significance of resources and capabilities of firms (Keillor & Kannan, 2011). As outlined by Cui (1998), changes in the external environment influence a firm's expansion decision. Maynard meant that China is going through great changes where the country has become one of the biggest players in global markets. For instance, he mentioned increases in wealth where the population and cities are growing each year. The

huge market of China creates expansion opportunities (Cui, 1998). However, Maynard mentioned that it also takes time to understand the scope of the market as well as how to operate and expand in it. Eistrand, Maynard and Kiaer all described how H&M, IKEA and Grundfos did not expand rapidly in the first few years after entering China but that it has been an incremental commitment of resources. Kiaer said that although Grundfos' investments were made in phases, a significant investment was needed up front in order to establish operations in China. The company cases illustrate the Chinese expansion as being a gradual process, which is in line with theory (Johanson & Wiedersheim-Paul, 1975). Moreover, growth and wealth increases in China may be connected to the Eclectic Paradigm, where foreign companies have been presented with more location-specific advantages along with the development of China's economy. In the last stage of expansion, known as the experienced stage, companies which have entered a market successfully, often regard the foreign market operations as an important part of the firm's global strategy (Cui, 1998). Our three case companies have been operating in China for at least a decade and the interviewees all describe their firms as having reached this stage of expansion. For instance, Kiaer meant that Grundfos' current market-driven expansion strategy has a clear purpose of making the company the leading pump manufacturer across all segments in China.

5.2.2 Internal Determinants

International Experience. When entering and expanding in the Chinese market, previous multinational experience of foreign/Scandinavian firms might play a role and determine the success or failure of MNEs at later stages of the expansion process. All of our case companies had previous international experience, which means they had expanded to other foreign markets before targeting the growing Chinese market. For instance, IKEA had already expanded to the United States, and a number of European markets in the 1980s (IKEA, 2017b). The expansion of H&M accelerated in the 1990s, where many new stores in different European countries opened up (H&M, 2017g). In 2000, the fashion retailer started its expansion to the United States, which was its first foreign market outside of Europe. As a next step, the company expanded to China and Hong Kong (H&M, 2017h). Our third case company, Grundfos, also gained international experience before it decided to tackle Asia and particularly the Chinese market (Grundfos, 2017b). Did this extensive previous multinational experience in non-Asian markets affect the entry mode

and mainly expansion strategies of our case companies? And if so, is it a determining internal factor for companies from Scandinavia which decide to go to China?
As outlined in previous chapters, international experience has been examined extensively in entry mode literature and specifically in a row of empirical studies. The dominant results of different studies point to choosing entry modes with higher levels of control when a firm is more experienced in international settings. Our quantitative study did not support this prevailing view. However, it seems like this variable has rarely been connected to expansion strategies of multinationals in China. As MNEs go through different stages in expansion, international experience might not be relevant in all of these stages. Especially in the experienced stage, this factor can become negligible, as discussed later. Overall, there was no unambiguous consent between all interviewees that this factor is essential in the entry and expansion process. On the one hand, Bengtsson pointed out that international experience has indeed contributed to the successful expansion of IKEA in China. She especially put emphasis on the fact that a mixture of previous knowledge in terms of internationalisation and new knowledge gained in China became important. Knowledge sharing, as a part of the expansion process, has also been key in order to learn, develop and expand successfully. This hints at an elevated importance of this factor, especially during the first expansion stages. While referring to other determinants, Bengtsson made clear that international experience was a contributing factor but not the only determinant of success. Maynard stated that IKEA's international experience has helped the company in establishing a position and gaining market share in China because it supports firms in "*going in with your eyes open*". However, he was also convinced that, having worked in seven Asian countries, each of them is so distinct in terms of for example culture, regulations and politics that it is often not possible to adopt the same expansion strategies to different Asian markets. According to this perspective, previous international experience may only explain a company's expansion strategy, process or success to a limited extent. Maynard also mentioned that there is naturally some knowledge which a company gains in each new market. This knowledge can to some extent be useful in a continuing expansion across national borders. However, experience gained in a particular country, for example in China, is much more important for growth in this specific market. He provided the example of India, in which IKEA recently decided to enter (BBC, 2016). Maynard meant that the Asian country is so distinctively different from China that IKEA's previous international experience might not contribute a lot to a successful entry and

expansion. Maynard's view hints at a subordinate role of international experience also in earlier stages of expansion. This is in contrast to Bengtsson's viewpoint. From the perspective of H&M, Eistrand explained that the company's international experience has indeed supported H&M in entering and expanding rapidly as well as successfully in China. This means that especially during early expansion stages, the factor played an important role. More importantly, she stressed that firm-specific knowledge has been a determining internal factor in expansion. As international experience can be labelled as a part of this overriding aspect, it can be considered as an important sub-factor in the internal perspective. Eistrand emphasised that H&M's global experience supported the firm in implementing a standardised approach towards different markets. This also fostered a successful entry and a continuous expansion in China. Overall, Eistrand's view is in line with the resource-based perspective which stresses the importance of a firm's internal capabilities in the internationalisation process (Barney, 1991). In regards to Grundfos, Kiaer mentioned that the company's international experience was indeed useful in the expansion to China. Grundfos had previously been present outside Europe and the company applied a generic model when setting up operations in China.

The analysis of the case interviews does not deliver a clear-cut result. On the one hand, it was expressed that international experience is often related to a specific market and therefore it becomes difficult to transfer it to other, distinctively different, countries. On the other hand, many of our interviewees acknowledged the importance of this factor in terms of expansion to China. In regards to Cui's (1998) expansion theory, we suggest that the analysis of our interviews hints at a decreasing importance at later stages in the expansion process, in for instance the experienced stage. It can be concluded that previous multinational experience can indeed be determining when it comes to entry and expansion in China, however the specificities of this market limit the overriding importance of this factor.

Firm Size. All of our case companies are considerably large in terms of the number of employees. H&M has about 161,000 employees (H&M, 2017i), IKEA's number of employees amounts to 123,000 (IKEA, 2017c) and Grundfos has 18,500 people employed (Grundfos, 2017a). Their presence in various global markets and their ability to coordinate activities in different ways, define our case companies as multinational enterprises (OECD,

2008). According to various studies, a larger firm size is associated with entry modes with a higher level of control (Brouthers & Nakos, 2004). However, the factor does not seem to have been analysed in connection with later stages of expansion in a market. Especially in the interview with H&M, it was emphasised that firm size also played an important role in their expansion in China. Eistrand pointed out that the connection of firm size with other factors like international experience and firm-specific know-how, was essential in expansion. She mentioned that H&M's long journey of growth and expansion, overall helped them in becoming successful in China. Eistrand compared H&M to some of their competitors which have a much smaller firm size and are not present in the Chinese market. She stressed that they would face a number of problems, connected to for example a lack of knowledge and experience, when entering and expanding in China. Occurring problems might be difficult to tackle without a given experience or size. In line with arguments by researchers, large firms tend to prefer higher control modes in foreign markets (Brouthers & Nakos, 2004). This could be connected to the fact that they have the possibility to make use of more resources, connections and networks. Therefore, they are able to use their power in terms of lobbying, which was also mentioned by Eistrand. In the interviews with Grundfos and IKEA, the factor firm size was not discussed in great detail. However, in some interviews it became clear that there is a strong connection between firm size and other internal factors, such as international experience and knowledge of the firm. The combination of internal factors might enable a firm to successfully expand in a foreign market. Examining this factor and its effect on expansion in isolation was not possible during the interviews with IKEA and Grundfos. However, by combining it with the internal factors international experience and firm-specific know-how, a more direct influence can be depicted. Overall, it can be concluded that firm size plays a role in expansion. Nevertheless, it cannot be considered an overriding internal factor.

Firm-Specific Know-How. According to the Resource-Based View, firm-specific knowledge is an example of a resource (Wernerfelt, 1984). As outlined in chapter 2, scholars have suggested that resources can help companies to compete successfully in international markets (Brouthers & Hennart, 2007). When examining the most important internal determinants of entering and expanding in the Chinese market, our interviewees all mentioned different crucial aspects. However, there was a common agreement that firm-specific know-how has helped the case companies when internationalising in the

Chinese market. As argued by Caves (1980), resources consist of tangible and intangible assets that are closely related to the firm. Our case interviews confirm this statement in regards to firm-specific know-how, where both types of resources are mentioned. First of all, Bengtsson and Maynard said that IKEA's people are an important resource for the company and a determinant of success. Maynard mentioned that IKEA needs people with experience from other Asian countries. The reason is that they can help the company understand the environment and how to do business in China. Bengtsson explained how IKEA is good at finding people who fit the company's values, and that a lot of investments are spent on educating and developing employees. She claimed that the well-educated staff is a resource. In addition, she meant that it is a resource which is desired by many players in the market. Not only did she think that there is a good match in values between IKEA and its employees, but also in values between IKEA and China. This belief is in line with previous research related to the Resource-Based View, stating that a company can succeed in a new market if its internal capabilities match the external environment in the host country (Conner, 1991). As previously mentioned, Eistrand emphasised the importance of firm-specific knowledge when speaking about internal determinants of H&M's expansion in China. She mentioned the flexibility of H&M's store design, multinational experience and global standard of for instance sourcing processes, as examples of firm-specific knowledge that has helped the company when entering new markets. She further believed that H&M's long experience from other markets, creates a competitive advantage in relation to other Scandinavian retailers which have not yet expanded to China. Kiaer, from Grundfos, mentioned the company's products as the most important internal determinant when expanding in China. He said that its firm-specific knowledge consists of technology which creates high-quality products. In turn, this creates a strong brand which is associated with a high level of trust. Moreover, he explained how Grundfos has been able to create speed, agility and autonomy of operations in China. Overall, all interviewees emphasised the importance of firm-specific know-how as an internal determinant when expanding in the Chinese market. Moreover, the findings of the interviews support the Resource-Based View when it comes to the fact that resources and capabilities can help companies succeed when competing in international markets (Brouthers & Hennart, 2007).

Organisational Structure. When assessing the influence of internal factors when entering and expanding in the Chinese market, the organisational structure of our case companies was also investigated. According to the Eclectic Paradigm, ownership advantages can consist of intangible assets such as a company's culture (Peng & Meyer, 2011) and organisational capabilities, are an important part of analysing a firm's ownership advantages (Roth & Jackson, 1995). As described in chapter 4.2, knowledge flows and experience sharing across geographical regions, are essential parts of IKEA's company culture and international expansion (Jonsson, 2008). Bengtsson believed that IKEA's network structure has had both its pros and cons in regards to internationalisation. On the one hand, it has made the company stick to its knowledge which has contributed to its expansion in China. On the other hand, it may create future challenges in regards to the speed of organisational decision making. Therefore, it is important to find the right balance between maintaining a network structure while ensuring that processes are not too slow. The decision making process in various strategic moves in China was also investigated in the interviews. According to Prahalad and Doz (1987), relationships between subsidiaries and headquarters need to be flexible and in line with competitive conditions. Moreover, the most important subsidiaries should be part of developing a company's overall global approach if these are expected to perform strategic tasks in line with the global strategy (Prahalad & Doz, 1987). These arguments are supported by Kiaer from Grundfos, who meant that flexibility is achieved through the autonomy of decision making of the Chinese subsidiary. He meant that, as long as there is an alignment on a strategic level and within boundaries in terms of resources and scope, the headquarters lets the China team make decisions. Eistrand also explained that H&M's subsidiaries are given a lot of authority in the market when it comes to steering and implementing their expansion strategy. She said that there is a two-way communication, where a subsidiary team can make a recommendation of an expansion strategy. Thereafter, top management often challenges the team, however they mostly follow the recommendation given by the subsidiary. Nevertheless, she said that when it comes to power of attorney or approving things, such as signing engagements with external parties, this is handled by top management. Maynard, from IKEA, explained that even though foreign subsidiaries are supported centrally, they all have their own strategy as each subsidiary knows its market and conditions of expansion. Bengtsson said that there is some regional management of the decision process, however she pointed out that major decisions are made on a global

level. The analysis of organisational structure shows that there seems to be a common structure where subsidiaries have an influence on various strategic moves made in the host country. This organisational structure supports the argument that the performance of subsidiaries can improve through the development of relationships filled with close integration, control and confidence between the two parties (Child et al., 2003). Overall, the organisational structure of our case companies, seems to have an influence on their expansion strategies in China.

5.2.3 External Determinants

Cultural Distance. As outlined in chapter 2.1.6, several scholars have frequently studied the influence of cultural distance on entry mode decisions (Yiu & Makino, 2002; Agarwal, 1994; Kogut & Singh, 1988; Makino & Neupert, 2000). Moreover, previous studies have found mixed results between this factor and the level of control in foreign markets (Erramilli et al., 1997; Shenkar, 2001; Hennart & Larimo, 1998). Most scholars seem to have focused on entry mode choices when investigating the impact of cultural distance. The findings of our interviews are more focused on experiences of cultural differences related to the companies' expansion in the Chinese market. Cui (1998) means that the entry stage of expansion involves building relationships with partners and major government agencies in China. Maynard shared his experience from working for IKEA in China and agreed that Chinese culture is focused on relationships. Hence, it is important to understand how to do business in a country that is very different to Sweden, where IKEA is from. Nevertheless, he pointed out that the collective culture in China works well with the IKEA culture, since it is characterised by an inclusive business environment. At the same time, both Bengtsson and Maynard recognised differences in employee culture, where Chinese workers are not used to working independently to the same extent as Swedish workers. In terms of consumer culture, the two interviewees from IKEA said that they have experienced challenges related to the brand perception of the company. The interviews showed that the idea of being "*for the many people*" did not work well in the beginning since IKEA's products were not affordable for a large number of people. Therefore, the perception in China was that IKEA was a luxury and aspirational Western brand - a perception which IKEA did not want to be associated with. As described in chapter 4.2.2, cost efficiency and low prices are important parts of IKEA's company culture (Jonsson, 2008). Another cultural challenge experienced by IKEA in China has been the

implementation of the do-it-yourself concept. Maynard and Bengtsson claimed that Chinese people are not familiar with this concept as they are used to being provided with a high level of service at low cost. This cultural difference has also posed challenges related to home delivery, a concept that is very common in China where cars are not often used for transporting furniture. In regards to H&M, Eistrand said that cultural differences have definitely been the main external challenge of H&M's expansion in China. She meant that H&M is a generic, open-minded, straightforward and easy going brand and that these brand characteristics have been difficult to apply to Chinese hierarchical culture. However, she stressed that the company has not experienced these challenges to a larger extent than any other foreign company in China. Just like Maynard and Bengtsson, Eistrand also mentioned the company's brand perception in China, and said that it might never go exactly hand in hand with how H&M wishes to be perceived. However, the expansion strategy definitely has an impact on this perception. Kiaer, from Grundfos, meant that cultural differences can be handled by being mindful and ensuring that the company works with people who have previous international experience. He argued that even though there are cultural differences, the related challenges do not make it difficult to do business in China. To summarise, it seems like the cultural distance between Scandinavia and China has influenced and created challenges in regards to the companies' expansion journey, particularly for IKEA and H&M. According to transaction cost researchers, the relationship between a high cultural distance and increased transaction costs is due to information costs and difficulties of transferring capabilities across markets (Sousa & Bradley, 2008). The challenges described by some of our interviewees partly support this argument.

Institutional Distance. As examined in chapter 2.1.4, the external factor institutional distance in relation to Institutional Theory, has received great attention by different scholars in international business research (Brouthers & Hennart, 2007; North, 1991). As institutions determine the framework in which companies operate, this factor can also be related to the expansion in a market. Makino and Yiu (2002), for example pointed out that institutional forces in the external environment may influence and affect new expansion. As institutional distance is often connected with economic distance and political (risk) distance (Delios & Beamish, 1999), these factors will be analysed as well, from an expansion point of view in our interviews. The factors were also examined in our

quantitative study, which will allow a more nuanced perspective by comparing both analyses in chapter 5.3.

Throughout all our interviews, it became evident that institutional forces and the distance between home and host country institutions, are important factors in the expansion of our case companies. Bengtsson and Maynard emphasised that China's multi-level bureaucracy and a great number of governmental institutions (for example on a central or regional level), increase the level of complexity in the market. This set-up is a strong contrast to the institutional environment in Sweden, which Bengtsson labelled as more straightforward compared to China. Moreover, this institutional structure in China also embodies a very hierarchical system to which IKEA has had to adapt in its expansion. In negotiations, it is for example important to send managers that are on the same hierarchical level as government officials. In this regard, Bengtsson mentioned that sending a store manager to a meeting with a provincial head of department would be offensive because managers of a higher level are expected. Furthermore, regulations particular to the retail industry pose challenges to foreign companies and can slow down expansion processes. Bengtsson expressed that there are many restrictions and ongoing changes related to regulations, and that institutional and governmental structures vary greatly depending on the region. This has also been discussed in chapter 4.2.1. Information provided by the Global Law Office showed that the regulatory process involves a lot of different steps including approval procedures and various institutional bodies of the Chinese government. Also, the *Catalogue for the Guidance of Foreign Investment Industries,* as mentioned by associate He, requires foreign firms to continuously adapt to restrictions and regulations. The ever-changing institutional forces mean that IKEA and other MNEs have to keep up with the different changes imposed by Chinese institutions. The latter are for instance related to data protection, security and product labelling, as outlined by Bengtsson. However, she also highlighted that China is opening up more, which also provides foreign companies with new expansion opportunities.

In the matter of economic distance, it was accentuated by both Bengtsson and Maynard that China's economy grows rapidly which leads to increasing wealth. Kiaer also recognised a growing demand in China. At the same time, he meant that prices are increasing and that there is a great openness towards Western products and lifestyle. In

turn, this signifies that economic distance slowly decreases over time. This could facilitate the expansion of foreign companies in China in the long-term. Bengtsson pointed out that IKEA greatly benefits from this development in terms of knowledge creation, talent attraction and innovation. As mentioned by Bengtsson, China has been the "*receiving country*". However, this is slowly changing and IKEA as well as other companies now also profit from the growing Chinese expertise. The growing economy in regions apart from the economically strong urban centres, also opens up new opportunities in expanding across China once companies have reached the experienced stage of expansion. This has led our case companies to further exploit opportunities in China.

When it comes to political distance, Maynard underscored that China's government opened up more. The importance of getting supported by the government, in order to expand successfully to new regions, was stressed as well. While governmental approval is important at early expansion stages, Maynard emphasises that it remains crucial at later stages of expansion. Eistrand supported this viewpoint from another angle by stating that operations can be challenging if the government imposes restrictions. Kiaer underlined that corruption is still prevalent which further increases the gap in political distance. He also verified Maynard's arguments by saying that support of the government is indispensable, especially in difficult times. Grundfos therefore spends a lot of time with different governmental institutions to develop a partnership and accelerate expansion. This perspective is in line with Chen (2007), who suggested that companies should interact with the Chinese government in order to tackle opportunities and threats.

All of our case companies emphasised that the protection of IPR, is still a big issue in China from an institutional point of view even though improvements have been made. Products and stores of IKEA, H&M and Grundfos have been copied, however none of our case companies was so far greatly affected in the long-term by copy-cats. The copying of products is related to the fact that the case companies are not present in all regions of China which is again, related to their pace of expansion. Bengtsson underlined that IPR enforcement is key but often difficult to realise in China, which was supported by Eistrand. This is in accordance with Child and Tse (2001), who stated that weak institutional environments can prevent firms from enforcing their property rights, as discussed in chapter 2.1.5. According to Kiaer, it remains impossible to unveil all IPR violations in

China and he said that although legal action should be taken, believing that this could fix all copy cats would be naive. Kiaer also stated that Grundfos does not need to solely rely on legal action to stop copy-cats because their technological expertise and high quality cannot simply be copied. However, he means that lower priced copies of Grundfos' products at a lower, but still acceptable quality, pose a threat. We argue that the non-enforcement of IPR protection is an institutional weakness, which can slow down expansion of foreign companies. The reason is that it can for instance decrease sales, harm brand perception and hinder growth. In conclusion, it can be stated that the analysis of institutional distance in relation with economic and political distance, shows that these factors are connected with the expansion process of Scandinavian firms in China. The rather big institutional distance between China and Scandinavia poses a number of challenges in expansion but at the same time opportunities can be exploited.

Local Adaptation. In order to investigate the need for local responsiveness in the expansion of our case companies in the Chinese market, our interviewees were asked to describe the degree of local adaptation of the concept and product offering in their expansion. As outlined in the literature review, internationally established companies are likely to apply a global strategy. At the same time, it is believed that companies could perform better by also using a regional strategy since, geographical differences are growing in importance (Ghemawat, 2005). All interviewees emphasised that the concept of their companies is the same worldwide, however more or less local adaptations of the product offering have been made in China. Bengtsson and Maynard explained that IKEA's concept has barely been adapted. However, Bengtsson mentioned that China contributes to developing the overall concept when it comes to understanding new trends, such as new types of demands in a more fast-paced market. Thus, the Chinese market has also contributed with new possibilities, designs and materials. Maynard pointed out that some small product adaptations are made in every country and he mentioned kitchen utensils and bed sizes as examples specific to the Chinese product offering. Bengtsson explained that IKEA attempts to be locally relevant in the way products are shown in IKEA's stores, and referred to the smaller kitchen size and different use of balconies as examples. However, both Maynard and Bengtsson emphasised the fact that the same conceptual product range is provided in any market. Similar arguments were provided by Eistrand, who claimed that H&M should be a brand that is recognisable to its customers everywhere

in the world. Nevertheless, she said that some local adaptation is sometimes needed, and she referred to product offering adjustments related to climate differences between markets. According to Kiaer, Grundfos has expanded in China in three phases where the degree of local customisation has increased throughout the years to better fit the Chinese market. Examples of local adaptations are the increased size and robustness of products. Although adaptation is important, he meant that limitations are needed from a cost perspective, where Grundfos can make use of the existing platform and technology when developing products for China. All interviewees stated that local adaptation has been made in regards to the marketing and communication channels used in China. For example, Bengtsson mentioned the change of focus from the traditional IKEA catalogue to the use of more digital channels. Moreover, Eistrand said that social media and other online media channels are used to a large extent by H&M in China. As illustrated by our interviewees, international companies follow a global strategy (Ghemawat, 2005). However local consumer preferences seem to limit the extent to which this strategy is implemented. The interviews show that our case companies seem to pursue a strategy mainly characterised by global integration, where some local adaptation is also used. These findings are a mixture of standardisation and differentiation strategies described in chapter 2.1.6.2 (Bartlett & Ghoshal, 2002).

Competitive Environment. The internationalisation strategy of a company may be influenced by industry-specific factors (Werner, 2002), such as the competitive landscape in the foreign market. According to several studies, entry mode decisions seem to be affected by domestic and foreign competitors (Brouthers & Hennart, 2007). Moreover, the competitive nature of a business affects a company's strategy of local responsiveness and global integration (Prahalad & Doz, 1987). Based on these arguments, the competitive environment, was one of the external factors included in the interviews. This was done in order to investigate its influence on the expansion strategy of our case companies. As described in chapter 4.2, the competitive landscape in China has intensified and our case companies have developed strategies to handle the high degree of competition in the market. For example, local production and competence in home interior design have been important parts of IKEA's competitive strategy to offer products in large volumes and at low prices (Jonsson, 2008). H&M has focused on a fast expansion in China to deal with the tough competition (Affärsvärlden, 2011). Grundfos created a low-cost brand in order to

deal with competition from local companies in the lower price segments (Tsang & Chong, 2014). Cui (1998) means that an increased level of competitiveness is a characteristic of the experienced stage of the expansion process. Just like Grundfos, companies need to innovate to maintain their market position (Cui, 1998). The findings from the interviews confirm that the competitive environment in China has changed and intensified along with the country's development. Bengtsson meant that IKEA's competition mainly consists of small companies and that it is not as organised as in Europe. However, she believed that competition in China is becoming more structured and as well as increasingly intense. Maynard said that one of IKEA's main challenges is the competition for land and accessibility in a market characterised by fast expansion. Both Eistrand and Kiaer agreed that the timing of entry played an important role in H&M's and Grundfos' successful expansion in China. This is in line with arguments by Cui (1998), who means that the right timing is a determining factor in several stages of expansion. Eistrand explained that China is a market filled with fierce competition and she said that *"It was very helpful for H&M to be on board early on to increase our knowledge as early as possible"*. Eistrand continued to explain that not only is China competitive due to the presence of international brands, but also due to price pressure since Chinese customers are very price sensitive. In order to defend its strategy, the company had to work aggressively with pricing. Kiaer from Grundfos agreed that the timing of entry is important and claimed that *"[…] having factories established early in China has been critically important"*. He also said that competition is getting tougher and that it influences Grundfos in the way that it has to adapt to the market with a stronger commitment of time and resources. To sum up, there seems to be a common notion among our case companies that the competitive environment in China has become more intense. This setting has influenced their expansion strategies and the importance of entry timing was emphasised.

5.2.4 Summary of the Qualitative Analysis

In the previous section, the qualitative part and therefore the results of our interviews, have been analysed and discussed on the basis of selected theories and our conceptual framework. The analysis has been conducted in order to determine factors that influence the expansion of our case companies and potentially other Scandinavian MNEs in China. Overall, it can be argued that opinions of our interview partners in regards to different factors are not the same. However, very often answers pointed in the same direction.

Three out of our four internal factors, namely firm size, firm-specific know-how and organisational structure, were found to have a more or less large impact on expansion of the companies, either in combination or in isolation. For the internal factor international experience, opinions slightly differed but also pointed to an elevated importance of this variable in early stages of expansion. All of our external variables proved to be essential when it comes to expansion in China. Especially cultural distance, institutional distance and the competitive environment exert a great influence on the expansion strategies of our case companies. The interviewees also emphasised that various challenges and opportunities are connected to these factors. In regards to the degree of local adaptation, we found that the case companies largely make use of a global strategy. In the analysis, it became clear that some of the factors vary in their degree of influence and some of them especially play a more important role at later stages of expansion and not at the initial entry stage. In the following section, the outcomes of both our quantitative and our qualitative analysis are analysed in comparatively in order derive similarities and differences.

5.3 Comparison of the Results of our Quantitative and Qualitative Analysis

The internal factors international experience and firm size as well as the external factors cultural and institutional distance, are shared determinants in both our qualitative and quantitative analysis. This is also shown in our conceptual framework. Therefore, a comparison between these factors is possible and is conducted in the following section. Nevertheless, it has to be noted that the quantitative part focuses solely on entry mode decisions while the qualitative chapter takes a closer look at expansion strategies. The remaining factors drawn from our conceptual framework, namely firm-specific know-how, organisational structure, competitive environment, local adaption and asset specificity are not used in both parts. Therefore, they cannot not be compared directly. However, the factors economic and political distance, are partly connected with the shared factor institutional distance, which facilitates an indirect comparison.

Internal determinants. In regards to the variable international experience, our quantitative study came to the result that the coefficient is negative and not significant when a Scandinavian company chooses between a JV and a WOS, as an entry mode in

China. This proved not to be in line with our expectations, however the result is supported by some previous studies. The analysis of our interviews revealed that most of our interview partners considered the factor to be important in order to successfully enter the Chinese market as well as to expand continuously. International experience was also considered as a part of firm-specific know-how, which indeed was found to have an influence on the entry mode decisions and expansion strategies of our case companies. Hence, this result is in contrast with findings of the quantitative study. However, it was also highlighted by one of our interviewees that China is a very specific and complex market. Therefore, previous international experience from other markets may not have a big impact on a company's entry and later expansion in China. When regarding international experience as specific to other countries than China, our quantitative findings are partly supported. In connection with expansion theories, it also became clear that the influence of international experience is likely to decrease over time as new knowledge is acquired in the market. This signifies that in later expansion stages, the factor is less relevant. All in all, we suggest that even though our quantitative and qualitative findings do not match perfectly, some support for our quantitative study can be derived. In addition, new findings related to the connection between international experience and its influence on expansion strategies, have been identified and presented.

The variable firm size was also discussed in both parts of our analysis. The quantitative study showed a negative and significant relationship of this variable in relation to a higher level of control in entry mode. Although the sign of the relationship contradicted our expectations and the majority of previous studies, some scholars have found that a larger firm size is associated with a JV mode of entry. In this way, our results provide additional insights regarding the relation between firm size and entry mode choices of Scandinavian firms in China. The qualitative analysis also showed that firm size has an influence on entry modes and expansion strategies of our case companies. However, the factor was especially discussed in connection with other internal determinants such as firm-specific know-how and international experience. This means that firm size proved to be an essential factor in combination with other internal determinants. Thus, by introducing it as a factor in isolation, we might not have captured the full effect of firm size on the choice of entry mode in our quantitative study. In later expansion stages, firm size pointed out to be determining because upcoming challenges and problems can be tackled easier by large

firms. This is for example rooted in a higher level of resources, know-how and experience, which our qualitative analysis revealed as important factors when expanding in the Chinese market. This was emphasised in one of our interviews, where a direct comparison to other smaller competitors was drawn. The combined analysis leads us to the conclusion that firm size has an effect on both early and late stages of expansion of Scandinavian firms in China. In this regard, the factor might also be decisive when success or failure in expansion is determined, however it remains as one of many influential variables and does not alone offer a full explanation of decisions made in entry mode and expansion strategies.

External determinants. The findings from the qualitative and quantitative analyses reveal that there are differences in the way which shared determinants influence entry mode decisions and expansion strategies. First of all, *cultural distance* was not found to be significant in any of the quantitative models. This result implies that the factor does not have an influence on entry mode decisions made by Scandinavian MNEs in China. In contrast, the qualitative analysis showed that cultural distance appears to have impacted the expansion strategy of the MNEs. All companies expressed that cultural differences have created challenges. For instance, the cultural distance between China and Scandinavia posed challenges related to employee culture, product offering, business concepts or brand perception. However, the degree of influence from cultural differences varied between our case companies. Some interviewees expressed that it has been one of the main external challenges in China, while others argued that it does not largely influence the way of doing business in the market. Mixed results were not only found in terms of expansion strategies, but also in regards to entry mode choice. As mentioned above, our quantitative findings showed insignificant results, however the relationship changed between positive and negative depending on the model used. Overall, the analyses show that the factor cultural distance does not influence entry mode decisions of Scandinavian MNEs in China, however it influences their expansion strategy. This finding implies that the impact of cultural distance is larger in the later stages of expansion. It is possible that the entry mode decision is influenced by other factors, such as the regulatory environment, to a larger degree than cultural distance. In later stages of expansion, cultural differences of brand perception or product preferences, seem to become more prominent and critical. This analysis supports arguments by Yiu and Makino (2002), who found that prior to entering a

market, normative factors, such as cultural distance, take longer to observe and are more difficult to identify than regulative and cognitive factors. This could explain why we found that challenges of cultural distance have a larger influential power in later stages of expansion.

The second factor which was investigated in both analyses was institutional distance. In the qualitative part, the factors economic distance and political distance were analysed in relation to institutional distance. Thus, a comparison of these factors is also made between the qualitative and quantitative analysis. The findings from the quantitative model showed that institutional distance does not have an influence on entry mode decisions of Scandinavian MNEs in China. The relationship between the variable and entry mode choice was found to be negative. When only looking at the sign of the coefficient, this indicates that companies prefer to enter through a JV when the institutional distance increases. However, the coefficient was not significant. On the other hand, our qualitative analysis showed that institutional distance is an important factor in regards to both the entry mode decision and expansion of our case companies. One of our case companies was limited by entry mode restrictions imposed by the institutional environment when entering China. Nevertheless, it should be emphasised that the entry was made prior to the sample period included in our quantitative analysis. Moreover, the interviews showed that the political distance between China and Scandinavia was claimed to have influenced the case companies' expansion. Government approval, corruption and IPR protection were some issues that were discussed. In the quantitative model, political distance was not significant, indicating that entry mode choice is not influenced by the political distance between the markets. A similar result was found in regards to economic distance. The interviewees expressed how the economic development in China has created several expansion opportunities. The increase in wealth implies that the economic distance between China and Scandinavia is slowly decreasing over time. Nevertheless, the insignificant result of the quantitative analysis showed that economic distance had no influence on the entry mode choice of Scandinavian MNEs. To sum up, the quantitative analysis showed that institutional, political and economic distance are all factors which do not have an influence on the entry mode decision in China. Conversely, the qualitative analysis showed that these factors do have an impact both in the entry stage and the later stages of expansion. In other words, our combined analysis shows that the institutional environment is not a

determining factor in the choice of entry mode. This could be explained by the fact that China has opened up and become less restrictive towards foreign firms (Luo, 2007) which means that entry mode decisions has become decreasingly influenced by the institutional environment in the past decade. At the same time, our interviews revealed that establishing partnerships with the Chinese government is important. This statement shows that the institutional environment does have an impact in the later stages of expansion in China. The above discussion is in line with Dunning's (1988) argument that location-specific factors become increasingly important as firms expand.

Overall, the integrated analysis shows that entry mode decisions are influenced differently in comparison to expansion strategies. The shared factors have more explanatory power in the expansion phases of Scandinavian firms in the Chinese market. In the next chapter the concluding remarks of this thesis are presented and the answer to our research question is highlighted, followed by implications and contributions to literature. In the last chapter, limitations of this thesis are discussed.

6. Conclusion

When a company decides to expand to a new market, the choice of an appropriate entry mode and a subsequent expansion strategy, is crucial in establishing successful operations abroad. Especially during the past decades, China's market size and tremendous growth have attracted a large number of MNEs to the country. Among these, many Scandinavian MNEs have entered and expanded in the Chinese market. Given the importance of the topic in international business literature and its relevance for the internationalisation of Scandinavian MNEs, this thesis investigated the following question:

How do different factors influence entry mode and expansion strategies of Scandinavian MNEs in the Chinese market?

In order to answer our research question, we conducted both a quantitative and a qualitative analysis. First, an array of previous studies related to determinants of entry mode choices and expansion strategies were reviewed. Research related particularly to the Chinese market was also examined. The literature review was used as a basis when developing our conceptual framework, which combined insights from four classical entry mode theories as well as one expansion theory. Specifically, the Eclectic Paradigm, the Resource-Based View, Transaction Cost Theory, Institutional Theory and The Evolutionary Process of Global Market Expansion were included. The conceptual framework was thereafter used to analyse how internal and external determinants influence the entry mode and expansion strategies of foreign MNEs in China. As previously mentioned, this study used two methodological approaches. First, a quantitative analysis was conducted to investigate determinants of entry mode decisions. A sample including 117 Scandinavian companies, which entered China in the period of 2007-2017, was used. By collecting ownership data from various databases and online sources, a dependent variable was constructed distinguishing between a JV and a WOS mode of entry. Several internal and external variables were introduced and their influence on entry mode choice was tested by applying a logistic regression model. In total, seven models were tested. Secondly, a multiple case study was applied to examine the impact of internal and external factors on expansion strategies. Interviews were conducted with four representatives from the case

companies IKEA, H&M and Grundfos. In addition, a written interview was conducted with the Global Law Office in China. This was done with the purpose of getting a better understanding of the institutional and regulatory environment in the Chinese market.

In the quantitative analysis, we did not find statistical support for most of our expectations. We found evidence suggesting that the variable firm size was negatively related to the degree of control in the entry mode decision. Despite being statistically significant, this relationship was inconsistent with our hypothesis. Our expectation was derived from findings of previous studies and theories such as the Resource-Based View and the Eclectic Paradigm. When considering the effect of the variables international experience, cultural distance, political distance, economic distance and institutional distance, these relationships but not the significance were consistent with our hypotheses as well as theory in several models. Evidence from certain models suggested negative relationships between these variables and entry mode choice. This indicated an increase in the probability of entering through a JV, with increasing values of the variables. Nevertheless, the findings were statistically insignificant and therefore mostly inconsistent with theories included in our conceptual framework. When only considering the relationship between asset specificity and the choice of entry modes, the likelihood of entering through a JV increased. This relationship was neither significant nor in line with our expectations. Moreover, the variable did not find support in Transaction Cost Theory, suggesting that companies prefer a high control entry mode when transferring specific assets to foreign markets to reduce transaction costs.

By analysing our qualitative outcomes from the interviews, we found evidence that most of the factors included in our conceptual framework were determining in expansion. Although opinions among our interviewees varied slightly, it became obvious that especially the external variables exerted a great influence in different expansion stages of MNEs in China. These findings were also in line with our five theories and mainly with the Eclectic Paradigm and Institutional Theory, which put a great emphasis on external circumstances. Moreover, the internal variables were found to have an impact on expansion strategies. This was supported by the Resource-Based View. We found that, especially the influence of internal factors in combination, was key in order for MNEs to achieve a competitive advantage and successfully expand. The interviews also revealed that

some variables, namely institutional and cultural distance, particularly played a role in later stages of expansion. This contributed with new insights also in comparison to the results of our quantitative study which solely focused on the initial entry mode decision.

In the comparison of our two different parts, we analysed the variables that were integrated in both our quantitative and our qualitative analyses, to derive combined findings. For the factor international experience, we found contrasting results regarding its influence on entry modes. The quantitative part showed an insignificant relationship while the interviews pointed to an elevated importance of this factor. However, the interviews also showed that the importance of previous international experience can be limited due to the complexity of the Chinese market. This partly supported our quantitative findings. The variable firm size appeared to be important in both analyses. Hence, we found support that the factor had an influence on both early and late stages of expansion. However, the observed relationship in the quantitative part, was not as expected. During the interviews, it became clear that firm size is especially relevant in connection with other internal variables. Therefore, it should not be regarded in isolation. The variable cultural distance showed no significant relationship in our quantitative study. However, the analysis of our interviews demonstrated that the factor has influenced the expansion journey of our case companies to a great extent. Our combined analysis highlighted that cultural distance therefore had a large impact on later expansion stages and not mainly on the initial entry. The external determinant, institutional distance, proved to be insignificant in the quantitative analysis. The interviews revealed that this factor had an increasing importance towards later stages of expansion, which complements findings of the quantitative part. This result seemed to be rooted in China's increasing economic openness and the reduction of restrictions in the past decade. All in all, our interviews showed that the MNEs which expanded in China encountered many challenges which were mainly related to the external environment. These were especially connected to distance in culture or institutions. Opportunities were seized based on different internal and external factors, as for instance economic growth and China's greater openness towards foreign investment.

As discussed in chapter 7, this thesis has its limitations. However, it presents several interesting implications for management practice and future research. First of all, it contributes to filling a research gap by investigating determinants of both entry mode

decisions and expansion strategies of firms. In this way, our research looks at the changing importance of determinants throughout the whole expansion process - from stages of preparation to becoming experienced in a foreign market. Secondly, this thesis investigates entry mode and expansion theories from the perspective of Scandinavian companies, which have received little attention in previous entry mode research. Since this study does not cover performance implications of a company's entry mode and expansion decisions, future research could add this perspective to a similar empirical study. Future research may also further explore the influence which other determinants might have on the entry mode and expansion strategies of MNEs. In terms of entry mode choices, the combined effect of variables could be investigated. When it comes to expansion strategies, factors such as managerial characteristics and regional experience could be examined. Expansion strategies are particularly subject to limited empirical research. Therefore, the influence of additional determinants could provide managers with a broader understanding of how to handle challenges related to their expansion in foreign markets. In this regard, our conceptual framework presents a useful tool for managers in order to identify factors that have an impact on entry mode and/or expansion strategies. Future research could also provide a more holistic understanding of this complex phenomenon by integrating more theories in the conceptual framework. Another proposition for future studies is to examine the influence of internal and external factors on entry and expansion strategies in other emerging markets and home countries as well as in other industries.

In conclusion, this thesis has contributed to a better understanding of the internationalization process of Scandinavian MNEs in China. We find evidence that the initial entry mode decision is not influenced by most of our investigated internal and external factors. However, in later stages of the expansion process, these factors gain influence and create both challenges and opportunities for MNEs in the Chinese market. Therefore, time seems to play an important role. In later stages of expansion, we argue that strategies of MNEs are increasingly influenced by internal and external factors as firms acquire new knowledge, build relationships and interact with foreign partners and institutions.

7. Limitations

It is necessary to point out that this thesis suffers from some limitations. In regards to the quantitative part, we underline that a generalisation of our results is limited to the time period 2007-2017. Moreover, our sample only included Scandinavian companies which have entered China. This makes our quantitative results inapplicable to other, distinctively different settings and time periods. Moreover, we only included companies with a minimum of 50 employees, which limits the applicability of our findings to smaller companies. These may have different priorities, in terms of for example resource commitment, which in turn could impact the entry mode and expansion strategies of these companies. Furthermore, we based our quantitative study on secondary data extracted from databases. On the one hand, this method ensures objectivity. On the other hand, it limits our selection of external and internal variables. However, we decided to add other variables in our qualitative part and thereby broaden our scope research. While other studies made use of surveys to extract a greater variety of variables, we decided to use secondary data which may have led to different results. In relation to our dependent variable, we decided to only include two modes of entry while other entry modes are also possible. These are not examined due to the scope and limited time frame of this thesis. In our sample, we aimed to include sectors which are not restricted by Chinese regulations in terms of entry mode. However, for some companies in specific sub-categories, restrictions might have changed during our selected time frame. We tried to cross-check this by using several sources. We acknowledge that our chosen data collection process, sample and measures of different variables influence the outcomes of our quantitative part. In other words, other measures might have produced different outcomes.

When considering the qualitative part of this thesis, some limitations are also addressed. First of all, the research strategy consisted of a multiple case study including three companies. The nature of this strategy and the small sample size limits the transferability of our qualitative findings to other Scandinavian MNEs. However, the purpose of using a multiple case study was to investigate and compare expansion experiences of managers from MNEs of different national backgrounds and industries. Moreover, the fact that interviews were only conducted with one or two managers at each company, can be seen as a limitation. Interviewing more people could have potentially provided us with a broader

perspective and deeper understanding of determinants, challenges and opportunities of the companies' expansion in China. Since this thesis is only focused on companies from the retail/wholesale and manufacturing industries, it limits the transferability of results to companies in these sectors. As mentioned in chapter 3.5, the generalisability of our study is influenced by the fact that the interviews only include companies from two of the three Scandinavian countries. Nevertheless, the quantitative part includes companies from all Scandinavian countries. Firms from Scandinavia are also claimed to exert similarities in regards to business culture and management style. In addition, the focus of the analysis has not been on the differences of influential factors between the countries. Based on these arguments, this limitation is not considered to impact our findings to a large extent.

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Appendices

Appendix A – Model 1

```
. logit entrymode year_entry country industry

Iteration 0:   log likelihood = -60.697906
Iteration 1:   log likelihood = -55.592111
Iteration 2:   log likelihood = -55.323316
Iteration 3:   log likelihood =  -55.32262
Iteration 4:   log likelihood =  -55.32262

Logistic regression                             Number of obs     =        117
                                                LR chi2(3)        =      10.75
                                                Prob > chi2       =     0.0132
Log likelihood =  -55.32262                     Pseudo R2         =     0.0886
```

entrymode	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
year_entry	-.2483739	.0926838	-2.68	0.007	-.4300308	-.0667171
country	.5511233	.4000784	1.38	0.168	-.233016	1.335262
industry	-.9111252	.8301323	-1.10	0.272	-2.538155	.7159042
_cons	500.9352	186.5347	2.69	0.007	135.3338	866.5366

* ***Includes the control variables***

Appendix B – Model 2

```
. logit entrymode country year_entry industry subratio employees_entry

Iteration 0:   log likelihood = -60.697906
Iteration 1:   log likelihood = -45.746333
Iteration 2:   log likelihood = -45.455797
Iteration 3:   log likelihood = -45.454999
Iteration 4:   log likelihood = -45.454999

Logistic regression                             Number of obs     =        117
                                                LR chi2(5)        =      30.49
                                                Prob > chi2       =     0.0000
Log likelihood = -45.454999                     Pseudo R2         =     0.2511
```

entrymode	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
country	.5684907	.4280714	1.33	0.184	-.2705139	1.407495
year_entry	-.2524236	.106718	-2.37	0.018	-.4615871	-.0432601
industry	-.7291988	.8663775	-0.84	0.400	-2.427268	.96887
subratio	-.3657938	1.525844	-0.24	0.811	-3.356394	2.624806
employees_e~y	-.0000876	.0000254	-3.45	0.001	-.0001374	-.0000379
_cons	509.806	214.9865	2.37	0.018	88.4402	931.1718

* ***Includes the control variables and internal variables except asset specificity***

Appendix C – Model 3

```
. logit entrymode country year_entry industry culturaldist economic_dist institutionaldist_entry politicaldist_entry

Iteration 0:   log likelihood = -60.697906
Iteration 1:   log likelihood = -54.495881
Iteration 2:   log likelihood = -54.055142
Iteration 3:   log likelihood = -54.051564
Iteration 4:   log likelihood = -54.051564

Logistic regression                             Number of obs     =        117
                                                LR chi2(7)        =      13.29
                                                Prob > chi2       =     0.0653
Log likelihood = -54.051564                     Pseudo R2         =     0.1095
```

entrymode	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
country	1.865487	1.952361	0.96	0.339	-1.961071	5.692045
year_entry	-.3687369	.2325534	-1.59	0.113	-.8245332	.0870594
industry	-.8077094	.8577846	-0.94	0.346	-2.488936	.8735176
culturaldist	11.41315	16.89534	0.68	0.499	-21.70111	44.52741
economic_dist	-2.253332	2.512105	-0.90	0.370	-7.176968	2.670304
institutionaldist_entry	-.1775838	.3057406	-0.58	0.561	-.7768243	.4216567
politicaldist_entry	.0262293	.9476985	0.03	0.978	-1.831226	1.883684
_cons	685.0385	423.7801	1.62	0.106	-145.5553	1515.632

**** Includes the control variables and external variables***

Appendix D – Model 4

```
. logit entrymode country year_entry subratio employees_entry industry culturaldist economic_dist institutionaldist_entry politicaldist_entry

Iteration 0:  log likelihood = -60.697906
Iteration 1:  log likelihood = -44.988853
Iteration 2:  log likelihood = -44.276918
Iteration 3:  log likelihood = -44.271421
Iteration 4:  log likelihood = -44.271419

Logistic regression                             Number of obs     =        117
                                                LR chi2(9)        =      32.85
                                                Prob > chi2       =     0.0001
Log likelihood = -44.271419                     Pseudo R2         =     0.2706

------------------------------------------------------------------------------
   entrymode |      Coef.   Std. Err.      z    P>|z|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
     country |   2.290976   2.21284     1.04   0.301    -2.046111    6.628063
  year_entry |  -.5069986   .2510523   -2.02   0.043    -.9990521   -.0149452
    subratio |   -.783837   1.688696   -0.46   0.643    -4.093619    2.525945
employees_e~y |  -.0000879   .0000253   -3.48   0.001    -.0001374   -.0000383
    industry |   -.700745   .8999573   -0.78   0.436    -2.464629    1.063139
culturaldist |   11.92116   19.06707    0.63   0.532    -25.44961    49.29194
economic_dist |  -3.308326   2.626893   -1.26   0.208    -8.456942     1.84029
institutionald~y |  -.2014018   .3477398   -0.58   0.562    -.8829593    .4801556
politicaldist_~y |   .3412109   1.091521    0.31   0.755    -1.79813     2.480552
       _cons |   962.8784   453.1941    2.12   0.034     74.63432    1851.123
------------------------------------------------------------------------------

.
```

**** Includes the control variables, internal variables except asset specificity and external variables***

Appendix E – Model 5

```
. logit entrymode country year_entry subratio employees_entry industry assetspecificity_entry

note: industry != 1 predicts success perfectly
      industry dropped and 6 obs not used

Iteration 0:   log likelihood = -33.254163
Iteration 1:   log likelihood = -22.969922
Iteration 2:   log likelihood = -22.545683
Iteration 3:   log likelihood = -22.544002
Iteration 4:   log likelihood = -22.544002

Logistic regression                             Number of obs     =         53
                                                LR chi2(5)        =      21.42
                                                Prob > chi2       =     0.0007
Log likelihood = -22.544002                     Pseudo R2         =     0.3221
```

entrymode	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
country	.2067417	.5280539	0.39	0.695	-.828225	1.241708
year_entry	-.2878942	.165125	-1.74	0.081	-.6115333	.0357449
subratio	-1.54845	2.354148	-0.66	0.511	-6.162496	3.065596
employees_entry	-.0000809	.0000331	-2.45	0.014	-.0001458	-.0000161
industry	0	(omitted)				
assetspecificity_entry	-.0373179	.066918	-0.56	0.577	-.1684746	.0938389
_cons	581.855	332.6946	1.75	0.080	-70.21437	1233.924

.

*** *Includes the control variables and internal variables***

Appendix F – Model 6

```
. logit entrymode country year_entry subratio employees_entry industry culturaldist ecomicdist_entry
 institutionaldist_entry politicaldist_entry asset_specificity_entry

note: industry != 1 predicts success perfectly
      industry dropped and 6 obs not used

Iteration 0:   log likelihood = -33.254163
Iteration 1:   log likelihood = -21.933307
Iteration 2:   log likelihood = -21.203314
Iteration 3:   log likelihood = -21.195643
Iteration 4:   log likelihood = -21.195629
Iteration 5:   log likelihood = -21.195629

Logistic regression                             Number of obs     =         53
                                                LR chi2(9)        =      24.12
                                                Prob > chi2       =     0.0041
Log likelihood = -21.195629                     Pseudo R2         =     0.3626
```

entrymode	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
country	-.2436453	4.670393	-0.05	0.958	-9.397447	8.910156
year_entry	-.5079641	.4915774	-1.03	0.301	-1.471438	.45551
subratio	-2.829607	2.841907	-1.00	0.319	-8.399642	2.740428
employees_entry	-.0000934	.0000381	-2.45	0.014	-.0001681	-.0000186
industry	0	(omitted)				
culturaldist	-8.893708	38.13917	-0.23	0.816	-83.64511	65.85769
ecomicdist_entry	-5.315248	4.39529	-1.21	0.227	-13.92986	3.299363
institutionaldist_entry	.2289086	.7460624	0.31	0.759	-1.233347	1.691164
politicaldist_entry	-.8648109	2.122933	-0.41	0.684	-5.025683	3.296061
asset_specificity_entry	-.082792	.0762529	-1.09	0.278	-.2322449	.0666609
_cons	1091.107	870.6749	1.25	0.210	-615.3844	2797.599

**** Includes the control variables, internal variables and external variables***

Appendix G – Model 7

```
. logit entrymode subratio employees_entry industry culturaldist ecomicdist_entry institutionaldist_entry
politicaldist_entry year2007 year2008 year2009 year2010 year2011 year2012 year2013 year2014 year20
> 15 year2016 year2017 sweden denmark norway

note: year2009 != 0 predicts success perfectly
      year2009 dropped and 12 obs not used

note: year2017 != 0 predicts success perfectly
      year2017 dropped and 1 obs not used

note: year2016 omitted because of collinearity
note: denmark omitted because of collinearity
note: norway omitted because of collinearity
Iteration 0:   log likelihood = -57.358378
Iteration 1:   log likelihood = -39.693264
Iteration 2:   log likelihood = -37.979202
Iteration 3:   log likelihood = -37.722383
Iteration 4:   log likelihood = -37.711692
Iteration 5:   log likelihood = -37.711681
Iteration 6:   log likelihood = -37.711681

Logistic regression                             Number of obs     =        104
                                                LR chi2(16)       =      39.29
                                                Prob > chi2       =     0.0010
Log likelihood = -37.711681                     Pseudo R2         =     0.3425
```

entrymode	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
subratio	-.1854922	1.924348	-0.10	0.923	-3.957146	3.586161
employees_entry	-.0000836	.0000252	-3.32	0.001	-.0001329	-.0000342
industry	-1.090394	1.03697	-1.05	0.293	-3.122817	.9420289
culturaldist	47.81234	50.9609	0.94	0.348	-52.06919	147.6939
ecomicdist_entry	-3.509404	3.308223	-1.06	0.289	-9.993401	2.974594
institutionaldist_entry	-1.761961	1.668967	-1.06	0.291	-5.033077	1.509155
politicaldist_entry	5.957266	5.283392	1.13	0.260	-4.397992	16.31252
year2007	14.05233	7.989818	1.76	0.079	-1.607422	29.71209
year2008	11.88876	6.985661	1.70	0.089	-1.802885	25.5804
year2009	0	(omitted)				
year2010	11.81267	7.187248	1.64	0.100	-2.274075	25.89942
year2011	7.857487	4.89894	1.60	0.109	-1.744259	17.45923
year2012	7.433433	4.130168	1.80	0.072	-.661547	15.52841
year2013	6.272234	4.288868	1.46	0.144	-2.133792	14.67826
year2014	8.466853	5.438227	1.56	0.119	-2.191875	19.12558
year2015	7.024423	5.621641	1.25	0.211	-3.993791	18.04264
year2016	0	(omitted)				
year2017	0	(omitted)				
sweden	-14.89491	12.85963	-1.16	0.247	-40.09933	10.30951
denmark	0	(omitted)				
norway	0	(omitted)				
_cons	-249.8336	279.5858	-0.89	0.372	-797.8117	298.1445

**** Includes the control variables (home country and year of entry as dummy variables), internal variables and external variables***

Appendix H – Likelihood Ratio Tests

Model 1 and 2

```
Likelihood-ratio test                                 LR chi2(2)  =     19.74
(Assumption: model1 nested in model2)                 Prob > chi2 =    0.0001
```

Model 1 and 3

```
Likelihood-ratio test                                 LR chi2(4)  =      2.54
(Assumption: model1 nested in model3)                 Prob > chi2 =    0.6371
```

Model 2 and 4

```
Likelihood-ratio test                                 LR chi2(4)  =      2.37
(Assumption: model2 nested in model4)                 Prob > chi2 =    0.6686
```

Model 3 and 4

```
Likelihood-ratio test                                 LR chi2(2)  =     19.56
(Assumption: model3 nested in model4)                 Prob > chi2 =    0.0001
```

Model 5 and 6

```
Likelihood-ratio test                                 LR chi2(4)  =      2.70
(Assumption: model5 nested in model6)                 Prob > chi2 =    0.6098
```

Appendix I – Pearson Correlation Table Model 6

```
. pwcorr, sig star(.05)
```

	country	year_e~y	subratio	employ~y	industry	entrym~e	cultur~t	ecomic~y	institu~y	politi~y	asset_~y
country	1.0000										
year_entry	0.1136 0.3916	1.0000									
subratio	-0.0896 0.4998	-0.1633 0.2164	1.0000								
employees_~y	-0.0765 0.5646	0.2772* 0.0336	0.0981 0.4598	1.0000							
industry	0.2131 0.1051	0.2142 0.1034	-0.2172 0.0984	0.0424 0.7497	1.0000						
entrymode	0.0114 0.9318	-0.3808* 0.0029	-0.0650 0.6248	-0.4979* 0.0001	-0.2141 0.1035	1.0000					
culturaldist	-0.5526* 0.0000	-0.0608 0.6474	0.1704 0.1968	0.0030 0.9822	-0.0416 0.7547	0.0520 0.6959	1.0000				
ecomicdist~y	0.3477* 0.0070	-0.7959* 0.0000	0.0304 0.8194	-0.2977* 0.0220	-0.1165 0.3796	0.3032* 0.0196	-0.3491* 0.0067	1.0000			
institutio~y	0.6361* 0.0000	0.2917* 0.0250	0.0167 0.9000	0.0106 0.9364	0.2935* 0.0241	-0.0449 0.7358	0.2126 0.1060	-0.1317 0.3200	1.0000		
politicald~y	-0.0162 0.9033	0.8624* 0.0000	-0.1936 0.1418	0.3431* 0.0078	0.1975 0.1339	-0.3992* 0.0017	-0.1683 0.2025	-0.7155* 0.0000	0.1410 0.2868	1.0000	
asset_spec~y	-0.1124 0.3968	0.0242 0.8557	0.1382 0.2967	0.1530 0.2473	0.1217 0.3584	-0.1126 0.3958	0.1239 0.3497	-0.1798 0.1729	0.0415 0.7550	0.0119 0.9288	1.0000

**** The asterisk indicates significance of correlation coefficients at a significance level of 0.05***

Appendix J – Interview Questions Case Companies

1. Please describe the entry strategy and the expansion strategy of your company in China. What form of entry did your company choose and what were the reasons behind it?

2. What have been the main opportunities since entering and expanding in the Chinese market?

3. Which have been the main **external** challenges since entering and expanding in the Chinese market? Please consider the following factors as examples:
   - Cultural differences
   - The Chinese labour market
   - Legislation, regulations and the institutional environment for foreign MNEs in the industry
   - Defence of intellectual property
   - The competitive environment

4. Which have been the most important **internal** factors since entering and expanding in the Chinese market? (e.g. firm-specific know-how, firm size, multinational experience, organizational structure)

5. Can you please describe the degree of local adaptation of the concept/solutions offering in the expansion in the Chinese market?

6. Who are eventually the decision makers in various strategic moves? Is it the board and/or top management team at home or those in China or some combinations of both?

Appendix K – Interview Global Law Office (Associate Muriel He)

1. Please describe the regulatory process which a Scandinavian MNE usually goes through when setting up a new business in China. Are there any differences in this process depending on the home country of the company?

The regulatory process for setting up a new business in China:

Record-filing Procedure：

a. Application for reservation of the Chinese company name of MNE;

b. Going through record-filing procedure of establishment of MNE;

c. Application for incorporation of MNE;

d. Application for chop carving;

e. Application for foreign exchange registration;

f. Open bank accounts

g. Register with customs. (If the MNE's business scope covers import and export service)

Or

Approval Procedures:

a. Preparation of feasibility study report, articles of association, and joint venture contract, where necessary, as well as ancillary application materials；

b. Obtain approval for the project from the National Development and Reform Commission or its local branch；

c. Obtain approval to establish a foreign-invested enterprise from the Ministry of Commerce or its local branch；

d. Obtain a business license from the State Administration of Industry and Commerce, or its local branch；

e. Register with the Public Security Bureau and obtain approval for preparation of seals；

f. Obtain foreign exchange registration certificate and approval to open a foreign currency registered capital account from the State Administration of Foreign Exchange；

g. Open bank accounts

h. Register with customs. (If the MNE's business scope covers import and export service)

There are no differences in this process depending on the home country of the company.

2. What entry mode and expansion strategies are most commonly used by Scandinavian MNEs and what are the reasons behind them?

A. JV

Two types of Chinese-foreign joint ventures are permitted under Chinese law: the equity joint venture (EJV) and the co-operative (or contractual) joint venture (CJV), both of which can be established as limited liability companies. Where a joint venture with a Chinese party is not required by law, foreign investors should carefully consider whether there is a genuine need to work with a local equity partner, or whether it may ultimately be more cost-effective to establish a wholly foreign-owned enterprise. The costs of dealing with a local partner, who will often resist managing the joint venture in accordance with Western practices, may ultimately be greater than simply starting from scratch. In dispute situations, the Chinese partner to the joint venture will often have the upper hand, no matter how carefully agreements are drafted. In most Chinese jurisdictions, foreign investors can work directly with the government and regulators without the assistance of a local business partner. Promises of access to or special treatment from local government should not be the basis for forming a business relationship. In an equity joint venture, each party may contribute registered capital in the form of cash, land, buildings, intellectual property, equipment and/or technology. The parties then share in the management, profits, risks and losses of the joint venture in proportion to their relative equity interests. Co-operative joint ventures are in many ways similar to equity joint ventures, but are somewhat more flexible in that the joint venture contract may provide for the foreign party to recoup its investment before the end of the term of the co-operative joint venture. The form of the parties' capital contributions to a co-operative joint venture may also be more flexible and its management may be contracted out to a third party. In the past, it was generally required that the foreign party contribute at least 25 per cent of the registered capital of the joint venture. This is no longer the case. Unlike the approval process for a representative office, which is largely a matter of routine, the authorities responsible for approving the establishment of joint ventures (and wholly foreign-owned enterprises) have the power to reject or suggest revisions to application documents if they determine that the documents contravene Chinese law or government policy. Interpretations of Chinese law and the application of policies can differ greatly from region to region. As such, practices in one Chinese jurisdiction may not be applicable in any other jurisdiction in the country. Since, in practice, there is limited administrative recourse available, foreign investors have no choice but to accept determinations and rulings made by local government authorities.

B. WOFE

Instead of a joint venture, a foreign company may choose to establish a wholly foreign-owned enterprise (WFOE). WFOEs, like joint ventures, are usually established in the form of limited liability companies. The main advantage of a WFOE is that the foreign investor, not having Chinese partners, has sole control over the management and financial affairs of the company. Several foreign investors may partner to establish a WFOE either by investing directly or by establishing an offshore entity to invest in the WFOE. In comparison to a joint venture, establishing a WFOE is relatively simple, since there is no requirement to enter into a joint venture contract with a local partner. At present, WFOEs are still prohibited in certain industries.

3. Which are the main regulatory/institutional factors that influence the entry mode decisions/expansion strategies of Scandinavian MNEs in the retail industry in China?

The laws and regulations that governed the Foreign-invested Enterprises

i. Whether the retail industry have been ruled in *Catalogue for the Guidance of Foreign Investment Industries* (hereinafter referred to as "**Catalogue**")

Catalogue for the Guidance of Foreign Investment Industries: The Catalogue shall be applicable to the projects of investment and establishment of Chinese-foreign equity joint ventures, Chinese-foreign contractual joint ventures and foreign-funded enterprises (hereinafter referred to as enterprises with foreign investment), and projects with foreign investment in other forms (hereinafter referred to as projects with foreign investment) within the territory of China; Projects with foreign investment fall into 4 categories, namely encouraged, permitted, restricted and prohibited ones. Projects with foreign investment that are encouraged, restricted and prohibited shall be listed in the Guidance Catalogue of Industries with Foreign Investment. And projects with foreign investment that don't fall into the categories of encouraged, restricted or prohibited projects shall be the permitted projects with foreign investment. The permitted projects with foreign investment shall not be listed in the Guidance Catalogue of Industries with Foreign Investment.

ii. The registration process of the Foreign-invested Enterprises

Interim Administrative Measures for the Record-filing of the Incorporation and Change of Foreign-invested Enterprises: Projects with foreign investment fall into encouraged, restricted and prohibited categories under *the 2015 edition of Catalogue*, which has special requirements for the equity, senior executives, regardless of the amount or size of the investment (new-setting, mergers and acquisitions), the approval procedures shall be applied to the projects; Mergers and acquisitions of domestic non- foreign- invested enterprises (including equity merger and acquisition), conducted by foreign investors, should be governed by *Provisions on the Merger and Acquisition of Domestic Enterprises by Foreign Investors,* the approval procedures shall be applied.

4. What are the main challenges, in terms of regulations or institutional voids, which foreign retail companies have to deal with when entering and expanding in China? (E.g. bribery, lack of IP protection, lack of understanding of regulations, price control, the labour market)

A. Antitrust and Unfair Competition

The basic law governing antitrust and competition issues in the PRC is the Anti-Monopoly Law ("AML"), which entered force on August 1, 2008. The AML is China's first comprehensive competition law, applying to almost all sectors of the economy. The main features of the AML are:

• A merger filing system, requiring mergers and acquisitions, meeting specific financial thresholds, to be notified to the Ministry of Commerce Anti-Monopoly Bureau ("MOFCOM") and approved prior to closing;

• A prohibition on monopoly agreements; and

• A prohibition on the abuse of a dominant market position.

Merger filing should be paid lot attentions by an MNE if it wants to enter the market by merger. The AML requires transactions qualifying as "concentrations" to be notified to MOFCOM. Higher specific thresholds exist for banks, insurance companies and other financial institutions. Transactions between related parties, such as reorganizations taking place entirely within a corporate group, are expressly exempted from the AML filing obligation. It is worth noting that:

• The thresholds can be met through imports into China alone – no Chinese assets or presence are needed;

• An AML filing will be required regardless of whether a transaction takes place in China or offshore;

• Transactions that are closed without filing in China, despite meeting the thresholds above, expose both the acquirer and the seller to substantial penalties; and

• Even if the thresholds set out above are not met, MOFCOM has the ability to require a filing to be made, either before or after closing. MOFCOM has stated that this will only occur where a substantial negative impact on competition.

B. Tax

The taxation of enterprise income in China is governed by the Enterprise Income Tax Law and its associated laws and regulations. An enterprise's taxable income is primarily based on whether a company is considered to be a "resident" or a "non-resident" of China. Resident companies are

those companies established under Chinese law or foreign companies with management or control based in China. Resident companies are subject to income tax on their worldwide income within the taxation period. Non-resident companies are subject to tax on their income relating to their China operations. In general, the enterprise income tax is 25% on the taxable income of a resident business. Non-resident businesses may be subject to a reduced tax rate, as may qualifying small businesses or businesses operating in certain encouraged geographic zones or industry sectors.

China also has several forms of tax that may be levied depending on the nature of a transaction. The Value Added Tax (VAT) is a tax generally payable on the production, sale and importation of goods (generally tangible goods), and certain types of services. In general, the VAT is designed to pass the ultimate payment of the tax to the end consumer of the goods or services. The Consumption Tax is a tax payable on certain non-essential or luxury consumer goods. The Business Tax is a tax payable on the provision of services (that are not covered by the VAT), and the transfer of intangible and real property. The tax rate for these taxes varies depending on factors such as the industry at issue and the particular circumstances of the payer.

There are numerous other taxes that may apply depending on the specific business activities at issue. Foreign investors should always seek advice on the taxes that may apply in any given case as part of their decision to do business in China.

C. Employment

The relationship between employers and employees is heavily governed by statute in China. The law provides basic minimums with respect to most aspects of the employment relationship, and in some areas stipulates the terms that must form the basis of the employment contract. In recent years, China has established certain state-administered social insurance programs for employees. These programs typically involve contributions from both employers and employees (through payroll deductions), and provide benefits such as medical insurance, injury and disability insurance, unemployment insurance, old age pension, housing fund and other benefits. Employers and employees are free to negotiate such aspects as salary, job description, vacation entitlement, and other benefits above the minimums provided by law.

Employment contracts in China may be formed on an open-term, fixed-term or task-specific basis. Employers are often reluctant to form open-term contracts, as they are not permitted to terminate employment relationships except in the event of serious dereliction of duty, protracted illness and similarly high thresholds. For this reason, employers generally prefer to structure their employment relationships on a fixed-term or, less commonly, on a task-specific basis. However, it is to be noted that fixed-term agreements also have limited benefits since the law provides that,

following two consecutive renewals of a fixed-term employment contract, it will automatically be treated under the law as an open- term contract.

Employers are often concerned about their ability to protect their business interests in relation to past and present employees. Chinese law recognizes the concepts of confidential information and trade secrets, and provides protection against theft or misuse thereof. China's patent legislation also contains provisions that generally deem intellectual property developed by an employee in the context of his or her employment to be the property of the employer, although additional compensation for the inventor may be required. In any event, the employment agreement should carefully set out the employee's confidentiality and use of intellectual property obligations, as well as the employer's entitlement to intellectual property created by the employee.

Chinese law also permits the use of post-employment non-competition arrangement. A non-competition clause in China must provide the employee with compensation throughout the non-competition period. The exact parameters of the compensation are not specifically addressed in the law, although in practice the amount is generally between one-half to two-thirds of the employee's typical compensation, paid on a monthly basis. An employer and an employee are also permitted to negotiate a penalty that will apply if the employee breaches his or her non-competition obligations. The term of the non-competition obligation must not exceed two years after the expiry or termination of the employment relationship.

D. Import and Export

As a member of the WTO, China's system of tariffs and duties is structured in accordance with the WTO agreements and other bilateral and multilateral trade agreements. China has put in place certain mechanisms (such as bonded zones and processing trade arrangements) that can be employed to import and re-export goods with reduced or eliminated tariffs and duties.

In China, companies are not permitted to engage in import or export activities unless they first undergo a registration process provided by law. It is also possible to conduct import and export activities using a qualified agent as an intermediary. Unless otherwise provided by law, qualified importers and exporters are permitted to conduct import and export activities without restrictions (subject to certain procedural requirements). In some cases, the law of China imposes special license and quota requirements on the import and export of certain goods and imposes special license requirements on the import and export of certain technologies. The law also prohibits the import and export of certain goods and technologies. The goods and technologies that are subject to certain restrictions or prohibitions are updated in catalogues released by the authorities from time to time.

5. In what way have the dynamics of entry requirements changed the costs and benefits of different entry modes over time?

Please refer to the answers for question 2.